INTESA SANPAOLO

Basel 2 Pillar 3

Disclosure as at 31 December 2008
























This is an English translation of the Italian original "Terzo pilastro di Basilea 2 – Informativa al pubblico al 31 dicembre 2008" and has been prepared solely for the convenience of the reader. The Italian version takes precedence and will be made available to interested readers upon request to Intesa Sanpaolo S.p.A. This document contains some forward-looking statements and forecasts reflecting the Intesa Sanpaolo management's current views with respect to future events. The Intesa Sanpaolo Group's ability to achieve its projected results is dependent on many factors which are outside management's control. Actual results may differ materially from those projected or implied in the forward-looking statements. Such forward-looking information involves risks and uncertainties that could significantly affect expected results and is based on certain key assumptions.
The following important factors could cause the Group's actual results to differ materially from those projected or implied in any forward-looking statements:

- *the Group's ability to successfully integrate the employees, products, services and systems of the merger of Banca Intesa S.p.A. and Sanpaolo IMI S.p.A. as well as other recent mergers and acquisitions;*
- *the impact of regulatory decisions and changes in the regulatory environment;*
- *the impact of political and economic developments in Italy and other countries in which the Group operates;*
- *the impact of fluctuations in currency exchange and interest rates;*
- *the Group's ability to achieve the expected return on the investments and capital expenditures it has made in Italy and in foreign countries.*

The foregoing factors should not be construed as exhaustive. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which refer only to the date hereof. Accordingly, there can be no assurance that the Group will achieve its projected results.

Basel 2 Pillar 3 – Disclosure as at 31 December 2008

Intesa Sanpaolo S.p.A.
Registered office: Piazza San Carlo, 156 10121 Torino Secondary registered office: Via Monte di Pietà, 8 20121 Milano Share capital 6,646,547,922.56 Euro Registration number on the Torino Company Register and Fiscal Code 00799960158 VAT number 10810700152 Member of the National Interbank Deposit Guarantee Fund and of the National Guarantee Fund, included in the National Register of Banks No. 5361 and Parent Company of "Intesa Sanpaolo", included in the National Register of Banking Groups.

Contents

Introduction

Notes to the Basel 2 Pillar 3 disclosure

The purpose of the Third pillar of Basel 2, "market discipline", is to complement the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2), by encouraging market discipline through the development of a set of disclosure requirements that will allow market participants to assess key pieces of information on the scope of application, regulatory capital, risk exposures, risk assessment processes, and therefore the capital adequacy of the institution. Such disclosures have particular relevance under the new framework introduced by Basel 2, where reliance on internal methodologies gives banks more discretion in assessing capital requirements.

The procedures to be adopted by Italian banks or banking groups when disclosing information (referred to in brief as Pillar 3) to the public have been laid down by the Bank of Italy in its Circular 263 of 27 December 2006 "New regulations for the prudential supervision of banks". This disclosure has therefore been prepared in compliance with the provisions of the abovementioned Circular (which incorporates the provisions of annex XII to the EU Directive 2006/48) and the subsequent changes made to the regulatory framework.

This document includes both a "qualitative section" and a "quantitative section" and is published in accordance with the rules laid down by the Bank of Italy with the following frequency:

- figures as at 31 December: full qualitative and quantitative disclosure;
- figures as at 30 June: update of the quantitative disclosure (because Intesa Sanpaolo forms part of the groups that have adopted IRB and/or AMA approaches for credit and operational risk);
- figures as at 31 March/30 September: update of the information relating to capital and capital adequacy (because Intesa Sanpaolo forms part of the groups that have adopted IRB and/or AMA approaches for credit and operational risk).

This document is broken down, in accordance with the provisions of the abovementioned Circular, into sections called "Tables" and has been drawn up on a consolidated basis with reference to a "prudential" scope of consolidation - unless otherwise specified, as explained below in "Table 2 - Scope of application". An explanation of the meaning of certain terms and/or abbreviations commonly used in this disclosure is provided in the specific glossary annexed to this document.

For the sake of completeness, please also note that the information relating to the regulatory capital and to the capital absorptions are also published in Part F of the Notes to the Consolidated financial statements, in the formats required by Circular 262 of 22 December 2005 of the Bank of Italy, which governs financial statement disclosure in accordance with the IAS/IFRS. Additional information concerning the various types of risk to which the Intesa Sanpaolo Group is exposed, including in relation to the operations of the insurance segment, is presented in Part E of the Notes to the Consolidated financial statements.

All amounts, unless otherwise indicated, are expressed in millions of euro. Prospectuses that do not contain any information because they do not apply to the Intesa Sanpaolo Group are not published.

This document represents the first application of the regulation and therefore no historical data have been presented for comparison.

The Intesa Sanpaolo Group publishes this disclosure (Basel 2 Pillar 3) and subsequent updates on its Internet site at the address group.intesasanpaolo.com.

Table 1 – General requirements

Qualitative disclosure

Introduction

The Intesa Sanpaolo Group attaches great importance to risk management and control as conditions to ensure reliable and sustainable value creation in a context of controlled risk, protect the Group's financial strength and reputation, and permit a transparent representation of the risk profile of its portfolios.
This is shown in the great efforts made in recent years to obtain the validation by the Supervisory Authorities of the Internal Models for market risks and for credit derivatives, and the recent recognition of the use of internal ratings for the calculation of the requirement to cover credit and operational risk in the Corporate segment: on this point see the paragraph dedicated to the Basel 2 Project, which describes the phases of the rollout plan for the internal models for credit and operational risks.
The definition of operating limits related to market risk indicators, the use of risk measurement instruments in granting and monitoring loans and controlling operational risk and the use of capital at risk measures for management reporting and assessment of capital adequacy within the Group represent fundamental milestones in the operational application of the strategic and management guidelines defined by the Supervisory Board and the Management Board throughout the Bank's decision-making chain, down to the single operating units and to the single desk.
The main principles in risk management and control are:
– clear identification of responsibility for acceptance of risk;
– measurement and control systems in line with international best practices;
– organisational separation between the functions that carry out day-to-day operations and those that carry out controls.

The policies relating to the acceptance of risks are defined by the Supervisory Board and the Management Board of the Parent Company with support from specific operating Committees, the most important of which are the Internal Audit Committee and the Group Risk Governance Committee, and from the Chief Risk Officer reporting directly to the Chief Executive Officer.
Assessments of each single type of risk for the Group are integrated in a summary amount – the economic capital – defined as the maximum "unexpected" loss the Group might incur over a year. This a key measure for determining the Group's financial structure and its risk tolerance, and guiding operations, ensuring the balance between risks assumed and shareholder return.
The Group sets out these general principles in policies, limits and criteria applied to the various risk categories and business areas with specific risk tolerance sub-thresholds, in an intricate framework of governance, control limits and procedures.
Risk coverage, in consideration of the nature, frequency and potential impact of the risk, is based on the constant balance between mitigation/hedging actions, control procedures/processes and finally capital protection.
The Parent Company is in charge of overall direction, management and control of risks. Group companies that generate credit and/or financial risks are assigned autonomy limits and each has its own control structure. For the main Group subsidiaries these functions are performed, on the basis of an outsourcing contract, by the Parent Company's risk control functions, which periodically report to the Board of Directors and the Audit Committee of the subsidiary.
For the purposes described above, Intesa Sanpaolo uses a wide-ranging set of tools and techniques for risk assessment and management, described in detail in this document.

Basel 2 Project

In June 2004, the Basel Committee on Banking Supervision published the final version of the Capital Accord ("Basel 2"), adopted by the European Union at the end of 2005 through the Directive on Capital Adequacy and by Italy with Law Decree 297 of 27 December 2006.
Very briefly, the Accord provides for new quantitative rules to establish the minimum capital requirement to cover credit, market and operational risks:

- for credit risks, the new rules introduce a greater degree of correlation between capital requirements and risks by acknowledging ratings and other credit risk measurement tools. The Accord sets out a Standard approach together with two increasingly sophisticated approaches based on internal risk management tools;
- the legal regulations currently in force for market risks continue to apply;
- the new Accord introduces capital absorption for operational risks, which can also be measured using three increasingly analytical approaches.

Lastly, capital adequacy must also be ensured for a wider range of risks which must at least include: financial risks in the banking book, liquidity risks, strategic risks, risks on equity investments and insurance activities, risks deriving from securitisations, residual credit risks and reputation risks.

The regulations are designed to promote the adoption of more sophisticated methods, in both credit risks and operational risks, through a lower absorption of capital. However, in order to access these options, the banks must satisfy a set of minimum requirements for risk management and control methodologies, to be verified by the Supervisory authority.

Most of the advantages will come from the management and operating results obtained from the systematic application of the new methodologies that should make it possible to improve risk management and control capabilities as well as increase the efficiency and effectiveness of customer service.

In order to profit from these opportunities, in 2007 Intesa Sanpaolo launched the "Basel 2 Project", with the mission of preparing the Group for the adoption of advanced approaches, building on the pre-merger experiences of Intesa and Sanpaolo IMI.

In 2008, the Intesa Sanpaolo Group began the approval process for the adoption of the advanced approaches within the "Basel 2 Project".

With regard to credit risks, a "first scope" of companies that use approaches based on internal models was identified. For these companies, the Group was authorised to use of the IRB Foundation approach for the Corporate segment, starting from the report as at 31 December 2008. The rating models and credit processes for the SME Retail and Retail (Residential mortgages) were also implemented in 2008. With the release of the Loss Given Default (LGD) model, which is being finalised, it will be possible to send the request for authorisation for the use of the IRB Advanced approach during 2009.

Also under development are the rating models for the other segments and the extension of the scope of companies for their application, in accordance with the progressive rollout plan for the advanced approaches presented to the Supervisory authority.

Regarding operational risks, preparations are in their final phases and will permit the submission of the request for validation for the Advanced approach in 2009.

Furthermore, in 2008 the Group presented the first report of the prudential control process for capital adequacy (ICAAP) as "class 1" banking group, according to Bank of Italy classification, based on the extensive use of internal methodologies for measurement of risk, internal capital and total capital available.

The internal control system

Intesa Sanpaolo, to ensure a sound and prudent management, combines business profitability with an attentive risk-acceptance activity and an operating conduct based on fairness.

Therefore, the Bank, in line with legal and supervisory regulations in force and consistently with the Code of conduct of listed companies, has adopted an internal control system capable of identifying, measuring and continuously monitoring the risks typical of its business activities.

Intesa Sanpaolo's internal control system is built around a set of rules, procedures and organisational structures aimed at ensuring compliance with Company strategies and the achievement of the following objectives:

- the effectiveness and efficiency of Company processes;
- the safeguard of asset value and protection from losses;
- reliability and integrity of accounting and management information;
- transaction compliance with the law, supervisory regulations as well as policies, plans, procedures and internal regulations;

The internal control system is characterised by a documentary infrastructure (regulatory framework) that provides organised and systematic access to the guidelines, procedures, organisational structures, and risks and controls within the business, also incorporating the provisions of the Law, including the principles laid down in Legislative Decree 231/2001 and Law 262/2005, together with the instructions of the Supervisory Authorities and Company policies.

The regulatory framework consists of "Governance Documents" that oversee the operation of the Bank (Articles of Association, Code of Ethics, Group Regulations, Authorities and powers, Policies, Guidelines,

Function charts of the Organisational Structures, Organisational Models, etc.) and of more strictly operational regulations that govern business processes, individual operations and the associated controls.
More specifically, the Company rules set out organisational solutions that:
- ensure sufficient separation between the operational and control functions and prevent situations of conflict of interest in the assignment of responsibilities;
- are capable of adequately identifying, measuring and monitoring the main risks assumed in the various operational segments;
- enable the recording, with an adequate level of detail, of every operational event and, in particular, of every transaction, ensuring their correct allocation over time;
- guarantee reliable information systems and suitable reporting procedures for the various managerial levels assigned the functions of governance and control;
- ensure the prompt notification to the appropriate levels within the business and the swift handling of any anomalies found by the business units and the control functions.

The Company's organisational solutions also enable the uniform and formalised identification of responsibilities, particularly in relation to the tasks of controlling and correcting the irregularities found.
At Corporate Governance level, Intesa Sanpaolo has adopted a dual governance model, in which the functions of control and strategic management, performed by the Supervisory Board, are separated from the management of the Company's business, which is exercised by the Management Board in accordance with the provisions of art. 2409-octies and subsequent of the Italian Civil Code and art. 147-ter and subsequent of the Consolidated Law on Finance.
The Supervisory Board has established an internal Control Committee that proposes, advises and enquires on matters regarding the internal control system, risk management and the accounting and IT system. The Committee also performs the duties and tasks of a Surveillance Body pursuant to Legislative Decree 231/2001 on the administrative responsibility of companies, supervising operations and compliance with the Organisational, Management and Control Model adopted by the Bank.
From a more strictly operational perspective the Bank has identified the following macro types of control:
- line controls, aimed at ensuring the correct application of day-to-day activities and single transactions. Normally, such controls are carried out by the productive structures (business or support) or incorporated in IT procedures or executed as part of back office activities;
- risk management controls, which are aimed at contributing to the definition of risk management methodologies, at verifying the respect of limits assigned to the various operating functions and at controlling the consistency of operations of single productive structures with assigned risk-return targets. These are not normally carried out by the productive structures;
- compliance controls, made up of policies and procedures which identify, assess, check and manage the risk of non-compliance with laws, Supervisory authority measures or self-regulating codes, as well as any other rule which may apply to the Group;
- internal auditing, aimed at identifying anomalous trends, violations of procedures and regulations, as well as assessing the overall functioning of the internal control system. It is performed by different structures which are independent from productive structures.

The internal control system is periodically reviewed and adapted in relation to business development and the reference context.
As a consequence, Intesa Sanpaolo's control structure is in compliance with the instructions issued by the Supervisory Authorities. Indeed, alongside an intricate system of line controls involving all the function heads and personnel, a Chief Risk Officer area has been established specifically dedicated to 2nd level controls that incorporates both units responsible for the control of risk management (in particular, the Risk Management Department, Credit Quality Monitoring, and Internal Validation in accordance with Basel 2), and the management of compliance controls (Compliance Department); the Legal Affairs Department also reports to the Chief Risk Officer.
There is also a dedicated Internal Auditing Department, which reports directly to the Chairman of the Management Board and the Chairman of the Supervisory Board, and is also functionally linked to the Control Committee.

The Compliance Department

The governance of compliance risk is of strategic importance to the Intesa Sanpaolo Group as it considers compliance with the regulations and fairness in business to be fundamental to the conduct of banking operations, which by nature is founded on trust.
The management of the risk of non-compliance was assigned, in the first half of 2008, to a function operating within the Internal Auditing Department. In June, in accordance with the Supervisory provisions issued by the Bank of Italy on 10 July 2007 and the regulatory provisions contained in the Joint Regulation

issued by Consob and the Bank of Italy on 29 October 2007, Intesa Sanpaolo established a specific Compliance Department, reporting to the Chief Risk Officer.
During the second half of the year, the Compliance Department implemented a project designed to set out the Group Compliance Model, based on Guidelines approved by the Management Board and the Supervisory Board. These Guidelines identify the responsibilities and macro processes for compliance, aimed at minimising the risk of non-compliance through a joint effort by all the company functions. The Compliance Department is responsible, in particular, for overseeing the guidelines, policies and methodologies relating to the management of compliance risk. The Compliance Department, including through the coordination of other corporate functions, is also responsible for the identification and assessment of the risks of non-compliance, the proposal of the functional and organisational measures for their mitigation, the pre-assessment of the compliance of innovative projects, operations and new products and services, the provision of advice and assistance to the governing bodies and the business units in all areas with a significant risk of non-compliance, the monitoring, also together with the Internal Auditing Department, of ongoing compliance, and the diffusion of a corporate culture founded on principles of honesty, fairness and respect of the spirit and letter and the spirit of the rules.
The activities carried out during the year concentrated on the regulatory areas considered to be the most significant in terms of compliance risk. In particular:

- with reference to the area of financial intermediation and investment services, these activities involved the governance of the process of compliance with the MiFID legislation, from the implementation of the governance and organisational measures required by the implementing regulations issued by the Supervisory Authorities, through the setting up of policies, processes and procedures and the establishment of the necessary training initiatives. The compliance activities also involved the clearing of new products and services, the management of conflicts of interest and the monitoring of customer activity for the prevention of market abuse;
- with regard to the countering of money laundering and terrorist financing, these activities involved the coordination of the organisational, IT and training activities aimed at the implementation of the Third European Directive. Monitoring also continued of the proper maintenance of the Single Electronic Archive together with the analysis of suspicious transactions for assessment concerning the reporting to the competent Authorities;
- support was provided to the business structures for the proper management of reporting transparency and more generally in relation to the regulations for consumer protection;
- the Organisational, Management and Control Model pursuant to Legislative Decree 231/2001 was overseen by verifying its compliance with the Company regulations, updating it to take into account the new offences, and coordinating the training activities and the verification of its proper implementation;
- the controls on the business processes required for the certifications by the Manager responsible for preparing the Company's financial reports pursuant to art. 154 of the Consolidated Law on Finance were conducted and, on specific request by the Bank of Italy, an extraordinary verification was conducted aimed at confirming that - with reference to the capital and to the minimum individual and consolidated requirements as at 30 June - the business processes enable compliance with the provisions concerning the calculability of the capital items and the correct quantification of the risk-weighted assets.

The Internal Auditing Department

With regard to Internal Auditing activities, the Internal Auditing Department is responsible for ensuring the ongoing and independent surveillance of the regular progress of the Group's operations and processes for the purpose of preventing or identifying any anomalous or risky behaviour or situation, assessing the functionality of the overall internal control system and its adequacy in ensuring the effectiveness and efficiency of company processes, the safeguarding of asset value and loss protection, the reliability and completeness of accounting and management information, and the compliance of transactions with the policies set out by the Company's administrative bodies and internal and external regulations.
Furthermore, it provides consulting to Bank and Group departments, also through participation in projects, for the purpose of improving the effectiveness of the processes of control, risk management and organisational governance.
The Internal Auditing Department uses personnel with the appropriate professional skills and expertise and ensures that its activities are performed in accordance with international best practice and standards for internal auditing established by the Institute of Internal Auditors (IIA).
The Internal Auditing Department has a structure and a control model which is organised consistently with the divisional model of Intesa Sanpaolo S.p.A. and the Group.

The surveillance was particularly affected by the delicate situation of the international economic-financial crisis, which worsened in the second half of the year. Consequently, also in accordance with instructions issued by the Control Committee and the Top Management, verifications were aimed at monitoring the evolution of the risks associated with credit quality, liquidity, financial operations, and the Group's Investment Banking.

Direct surveillance was carried out in particular through:

- the control of the operational processes of network and central structures, with verifications, also through on-site interventions, of the functionality of line controls, of the respect of internal and external regulations, of the reliability of operational structures and delegation mechanisms, of the correctness of available information in the various activities and of their adequate use with free and independent access to functions, data and documentation and application of adequate tools and methodologies;
- the surveillance, via distance monitoring integrated by on-site visits, of the credit origination and management process, verifying its adequacy with respect to the risk control system and the functioning of measurement mechanisms in place;
- the surveillance of the process for the measurement, management and control of the Group's exposure to market, counterparty, operational and credit risks, periodically reviewing the internal validation of the models and the ICAAP process developed for Basel 2 and the Prudential Supervisory regulations;
- the valuation of adequacy and effectiveness of information technology system development and management processes, to ensure their reliability, security and functionality;
- the surveillance, also via on-site visits, of the processes related to financial operations and the adequacy of related risks control systems;
- the control of compliance with the behavioural rules and of the correctness of procedures adopted on investment services as well as compliance with regulations in force with respect to the separation of the assets of customers;
- the verification of the operations performed by foreign branches, with interventions by internal auditors both local and from the Head Office.

During the year the Internal Auditing Department also ensured the supervision of all the main integration projects paying particular attention to control mechanisms in the Bank's models and processes and, in general, to the efficiency and the effectiveness of the control system established within the Group.

Indirect surveillance was conducted via direction and functional coordination of the Auditing structures in subsidiaries, for the purpose of ensuring control consistency and adequate attention to the different types of risks, also verifying the effectiveness and efficiency levels under both the structural and operational profile. Direct reviews and verification interventions were also conducted.

In conducting its duties, the Internal Auditing Department used methodologies for the preliminary analysis of risks in the various areas. Based on assessments made and on the consequent priorities, the Internal Auditing Department prepared and submitted an Annual Intervention Plan for prior examination by the Control Committee, the Management Board and the Supervisory Board, on the basis of which it conducted its activities during the year, completing all the scheduled audits.

Any weak points have been systematically notified to the Departments involved for prompt improvement actions which are monitored by follow-up activities.

The valuations of the internal control system deriving from the checks have been periodically transmitted to the Control Committee, to the Management Board and to the Supervisory Board which request detailed updates also on the state of solutions under way to mitigate weak points; furthermore, the most significant events have been promptly signalled to the Control Committee.

A similar approach is used with respect to the responsibilities of administrative bodies pursuant to Legislative Decree 231/01 for the Control Committee, as Surveillance body.

CREDIT RISK

Risk management strategies and processes

The Group adopts credit strategies and policies aimed at:
- the coordination of the actions aimed at the achievement of a sustainable objective, consistent with risk tolerance and value creation;
- portfolio diversification, limiting the concentration of exposures on single counterparties/groups, single sectors or geographical areas;
- efficient selection of the single borrowers via an attentive creditworthiness analysis aimed at containing default risk, notwithstanding the objective of privileging commercial lending or loans to support new production capacity with respect to merely financial interventions;
- control of relationship characteristics, carried out with information technology procedures and systematic surveillance of the relationships which present irregularities, both aimed at rapidly identifying any signs of deterioration in risk exposures.

The quality of the loan portfolio is constantly monitored by specific operating checks for all the phases of loan management (analysis, granting, monitoring, management of non-performing loans).
The management of credit risk profiles of the loan portfolio is assured, starting from the analysis and granting phases, by:
- regulations on Credit policies;
- checks on the existence of the necessary conditions for creditworthiness, with particular focus on the client's current and prospective capacity to produce satisfactory income and congruous cash flows;
- the assessment of the nature and size of proposed loans, considering the actual requirements of the counterparty requesting the loan, the course of the relationship already in progress and the presence of any relationship between the client and other borrowers.

In 2008, the areas of responsibility relating to credit operations were redefined through a new organisational structure based on a rigorous segregation of functions and tasks.
Within the specific area of Group credit management, the Chief Financial Officer - in accordance with the strategic guidelines and risk management policies set out by the Management Board and approved by the Supervisory Board - sets out the credit strategies and assesses the need for their adjustment over time; the Chief Lending Officer coordinates the implementation of the credit guidelines established for the Group, makes the significant credit decisions and supervises doubtful credit and the recovery of non-performing loans; the Chief Risk Officer ensures the measurement and control of the Group risk exposures and monitors risk performance and credit quality on an ongoing basis; and the Chief Operating Officer provides specialist support in the setting out of the credit processes ensuring the synergy between costs and excellence of the service offered.
Approval limits attributed to the credit approval functions of the Parent Company and of subsidiaries are defined in terms of total Bank/Banking Group exposure to each counterparty/economic group, with a case-by-case approach and require the attribution of an internal rating to each counterparty at the time of granting and monitoring and the periodic update of the rating at least once a year. The rating and any credit risk mitigation factors, influences the determination of the credit approval competence of each delegated body, which is formulated to ensure its credit risk equivalence in terms of capital absorbed.
Intesa Sanpaolo, as the Parent Company, has set out codes of conduct in relation to credit risk acceptance, in order to prevent excessive concentrations, limit potential losses and ensure credit quality.
In the credit-granting phase, coordination mechanisms have been introduced with which Intesa Sanpaolo exercises its direction, governance and support of the Group:
- "Credit policies", which discipline the conduct to be followed when taking on credit risk with customers;
- "Credit-granting limit", intended as the overall limit of loans which may be granted by companies of the Intesa Sanpaolo Group to the larger Economic Groups;
- "Compliance opinion" on credit-granting to large customers (single name or Economic Group) which exceeds certain thresholds.

Structure and organisation of the associated risk management function

The Chief Risk Officer defines the risk propensity of the Business and the Group in terms of Expected Loss and Economic Capital. This Officer's responsibilities include contributing to the setting out of the credit strategies by providing guidelines in relation to Expected Loss, Economic Capital (ECAP) and the acceptance thresholds; the measurement and control of the Group's exposure to the various types of risk and related reporting to Top Management; ensuring the monitoring of credit quality and the observance of credit-related guidelines and strategies through the contiuous monitoring of risk and credit quality and the implementation of corrective actions by the Business Units; and establishing the powers in relation to the granting and management of loans and the criteria for classification as non-performing loans.

The Chief Risk Officer is also responsible, at Group level, for the definition and development of credit risk measurement methods, in order to ensure alignment with best practice.

These activities are conducted directly by the Risk Management Department, through the Credit Risk Management Unit and the Credit Quality Monitoring Unit, for both the Parent Company and the main subsidiaries, on the basis of a service contract, whereas the other control structures operating within the individual companies are responsible for measuring and monitoring the portion of the loan book assigned to them, and they report regularly to the abovementioned departments and units of the Parent Company in order to guarantee an overall view at Group level.

Scope of application and characteristics of the risk measurement and reporting system

Intesa Sanpaolo has developed a set of instruments which ensure analytical control over the quality of the loans to customers and financial institutions, and loans subject to country risk.

Risk measurement uses rating models that are differentiated according to the borrower's segment (Corporate, Small Business, Mortgage, Personal Loans, Sovereigns, Italian public sector entities, Financial institutions). These models make it possible to summarise the credit quality of the counterparty in a measurement, the rating, which reflects the probability of default over a period of one year, adjusted on the basis of the average level of the economic cycle. Statistical calibrations have rendered these ratings fully consistent with those awarded by rating agencies, forming a single scale of reference.

Risk measurement uses rating models that are differentiated according to the borrower's segment (Corporate, Small Business, Mortgage, Personal Loans, Sovereigns, Italian public sector entities, Financial institutions).

The Corporate rating models, the object of the validation application submitted in November 2008, are described in detail in Table 7.

As regards the other segments, a brief summary is provided below of the current status of the models and the expected developments. The use of internal models for operational purposes also extends to the segments where the internal ratings are not intended to be used for regulatory reporting.

The Sovereign internal model (a segment for which authorisation for Permanent Partial Use has been requested) involves the incorporation, with expert based weightings, of several components (in particular: agency ratings and scoring by specialist institutions, credit spread, and an internal model based on macroeconomic factors).

Two types of models have been adopted for the Public Entities segment: the first, aimed at the assessment of Municipalities and Provinces, is a default model, where the default is defined as a situation of financial distress, and is estimated using a sample of Italian municipalities; the second, aimed at the assessment of Regions and Local Health Authorities, is a dynamic panel model. Both these quantitative models are supplemented by a qualitative section.

The Banks model is a shadow rating model (estimated using the external agency rating as a target variable), and differentiates between banks from developed countries and banks from emerging countries.

A new generation of these models will be developed during 2009, in order to meet the three year experience requirement and request their validation for regulatory purposes in 2012.

For counterparties belonging to the Non Bank Financial Institutions sub-segment (Insurance Companies, Credit Guarantee Consortia, Near-banking, etc.), for which the Permanent Partial Use has been requested, a series of exclusively operational models are already used or under development, based on a variety of statistical techniques (shadow rating, portfolio approaches) and supplemented by experience-based elements.

As regards the Retail portfolio, the models used previously were replaced during 2008. The summary features of the new models are as follows:

– for the Small Business segment a new counterparty rating model has been adopted, based on similar criteria to the Corporate model, namely highly decentralised and where the quantitative-objective elements are supplemented by qualitative-subjective elements;

– for the Mortgage segment, the model processes information relating to both the customer and the contract. It differentiates between initial disbursement, where the acceptance model is used, and the subsequent assessment during the lifetime of the mortgage (performance model), which takes into account behavioural data.

During 2009, an application for authorisation is due to be made to the Supervisory Authority to use these models for regulatory reporting purposes, together with the LGD model (IRB Advanced application).

As regards the other products aimed at private individuals (Other Retail segment), such as personal loans, consumer credit, credit cards, current account overdrafts, etc., second generation product ratings are due to be developed over the year, for which validation will be requested from 31 December 2010.

The approach adopted for the determination of the LGD is based on the concept of "Economic LGD", namely the present value of the cash flows obtained in the various phases of the recovery process net of any administrative costs directly related to the exposure as well as the indirect management costs incurred by the Group.

The LGD is estimated based on the data observed for a population of closed defaults over a particular period of observation (up to 8 years), using multivariate analysis models.

In 2009, the development will commence of a new internal model for the determination of the EAD, for which a request for validation is expected to be made in 2010.

The allocation of the rating is generally spread across the branches, except for certain types of counterparty (mainly large groups and complex conglomerates, non-banking financial institutions and insurance companies), which are centralised in specialist Head Office units and require expert assessments.

As mentioned above, ratings and credit-risk mitigation factors (guarantees, facility types and covenants) are used in credit-granting processes as part of the determination of autonomy limits; ratings also contribute to defining Credit policies.

Furthermore, the rating system includes a behavioural score available on a monthly basis, which is the main element used for monitoring credit. It interacts with processes and procedures for loan management and credit risk control and allows timely assessments to be formulated when any anomalies arise or persist. The positions to which the synthetic risk index mentioned above attributes a high risk valuation, which is confirmed over time, are intercepted by the Non-performing Loan Process. This process, supported by a dedicated electronic procedure, enables constant monitoring, largely with automatic interventions, of all the phases for the management of anomalous positions. The positions which show an anomalous trend are classified into different processes based on the risk level, including the automatic classification in non-performing assets, as described in the related paragraph below.

The entire loan portfolio is subject to a specific periodic review carried out for each counterparty/economic group by the competent central or peripheral structures based on the credit line limits.

The Credit Information Portal offers the Operating Units of the Banca dei Territori and the Corporate and Investment Banking Divisions, down to the respective Area structures, access via the Bank's Intranet to a wide range of specific monthly reports for their respective portfolios and to a series of "Alerts" that identify the potentially-critical situations.

The review of the content and layout will be completed in 2009 and the target version of the Credit Information Portal will be made available to the Parent Company and the Network Banks.

The exchange of basic information flows between different Group entities is assured by the Group's "Centrale Rischi" (exposure monitoring and control system) and by "Posizione Complessiva di Rischio" (global risk position), that highlight and analyse credit risks for each client/economic group both towards the Group as a whole and towards individual Group companies.

Directional control of credit risks is achieved through a portfolio model which summarises the information on asset quality in risk indicators, including expected loss and capital at risk.

The expected loss is the product of exposure at default, Probability of Default (derived from the rating) and Loss Given Default. The latter represents the average of the loss distribution, whereas the capital at risk is defined as the maximum "unexpected" loss that the Group may incur with particular confidence levels. These indicators are calculated with reference to the current status of the portfolio and on a dynamic basis, by determining the projected level, based on both the forecast macro economic scenario and on stress scenarios.

The expected loss, transformed into "incurred loss" as indicated by IAS 39, is used in the collective assessment of loans, while capital at risk is the fundamental element in the assessment of the Group's capital adequacy. Both indicators are also used in the value-based management reporting system.

The credit portfolio model also allows identification of the undesired concentration effects and extent and content of actions:
- aimed at ex ante limitation of exposures with significant concentration effects, in particular with reference to "large risks", to loans subject to country risk and to loans to financial institutions;
- aimed at ex post correction of the profile, through the secondary loan market, through specific judgement metrics based on the maximisation of overall portfolio value.

Policies for hedging and mitigating risk
The techniques for the mitigation of risk are the elements that contribute to reducing the losses for the Bannk in the case of Loss Given Default of the counterparty. They include guarantees, facility types and covenants.
The evaluation of the mitigating factors is performed through a procedure that assigns a loss given default to each individual loan, assuming the highest values in the case of ordinary non-guaranteed financing and decreasing in accordance with the strength given to any mitigating factors present.
The loss given default values are subsequently aggregated at customer level in order to provide a summary evaluation of the strength of the mitigating factors on the overall credit relation.
Within the credit granting and management process, Credit policies favour higher mitigating factors for counterparties classified by the rating system as non investment grade and for certain types of medium-long term exposures.
The "very strong" and "strong" mitigating factors include pledges on financial collateral and residential mortgages. Other mitigating guarantees include pledges on non-financial assets, non-residential mortgages and personal guarantees issued by unrated parties, provided they have sufficient personal assets.
The strength of the personal guarantees issued by rated parties typically banks/insurance companies, Credit Guarantee Consortia and corporations, is instead assessed on the basis of the guarantor's credit quality.
The use of guarantees such as CRM techniques is subject to the satisfaction of a series of "eligibility criteria", regulated by the Bank of Italy Circular 263/2006, which define the limits and quantitative thresholds, for each type of collateral, within which they may be considered as valid risk mitigation instruments.
The eligibility characteristics, specifically referred to within all the methodologies proposed by Basel 2, relate to legal and process requirements and specific requirements for the guarantee.
These also include the requirement for the periodic valuation of the financial and real estate collateral. For the former, the daily market values are recorded. For the latter, the Intesa Sanpaolo Group has developed a revaluation model consisting of a series of algorithms, data and methodologies in order to calculate the fair value, on a monthly basis, of the real estate underlying the guarantee acquired as collateral.
Corrections are also applied for the volatilities provided for by the regulation, in order to consider the impact of any foreign exchange and market risks on the value of the asset used as a guarantee.

With reference to concentration risk, limits are periodically defined for single counterparties and for significant industrial and geographical aggregates. Post loan origination interventions are aimed at acting on the risk profile of the entire portfolio, using all the opportunities present on the secondary loan market, in view of an active management of business assets.

MARKET RISKS

MARKET RISKS/TRADING BOOK
Risk management strategies and processes

The allocation of capital for trading activities is set by the Parent Company's Management Bodies, through the attribution of operating limits in terms of VaR to the various Group units. The allocation of these limits is mainly aimed at Intesa Sanpaolo and Banca IMI as they represent the main portion of the Group's market risks. Some of the other Group subsidiaries hold smaller trading portfolios with a marginal risk.
The Group Financial Risks Committee monitors the risks of all the Group companies on a monthly basis, with particular reference to the absorption of the VaR limits, and recommends any corrective actions. The situation is also regularly examined by the Group Risk Governance Committee in order to propose any changes to the strategies for trading activities to the Management Bodies.

Structure and organisation of the associated risk management function
The Chief Risk Officer is responsible, at Group level, for setting out the system of operating limits, the capital allocation system, and the system of binding policies and procedures. These activities are coordinated by the Group Financial Risks Committee, which discusses the guidelines for the management of market risks.

As part of its functions, the Risk Management Department (especially through the Market Risks and Financial Valuations Unit) is responsible for the:
- calculation, development and definition of the risk indicators: Value at Risk, sensitivity and greeks, level measures, stress tests and scenario analyses;
- monitoring of operating limits;
- establishment of the parameters and rules for the revaluation of assets subject to mark-to-market and fair value at Group level, as well as their direct revaluation when this cannot be obtained from instruments available to the business units;
- comparison of the P&L with the risk indicators and in particular with the VaR (so-called backtesting).

The structure of the Risk Management Department is based on the following guidelines:
- structuring of the responsibilities according to the main risk taking centres and to "Risk Type";
- focusing and specialisation of the resources on the "Risk Owners";
- compliance with the instructions and proposals of the Supervisory Authorities;
- sustainability of the operating processes, including:
  - methodological development;
  - collection, processing and production of data;
  - maintenance and refinement of the instruments and application models;
  - general consistency of the data produced.

Scope of application and characteristics of the risk measurement and reporting system
The activities for the quantification of trading risks are based on daily and period estimates of sensitivity of the trading portfolios of Intesa Sanpaolo and Banca IMI, which represent the main portion of the Group's market risks, to adverse market movements of the following risk factors:
- interest rates;
- equity and market indexes;
- investment funds;
- foreign exchange rates;
- implied volatilities;
- spreads in credit default swaps;
- spreads in issued bonds;
- correlation instruments;
- dividend derivatives;
- ABS (Asset Backed Securities);
- raw materials.

The risk indicators used may be divided into four main types:
- Value at Risk (VaR), which represents the backbone of the whole risk management system due to its characteristics of uniformity, consistency and transparency in relation to both economic capital and the Group Finance operations;
- sensitivity and greeks, which are the essential accompaniment to the VaR indicators due to their ability to capture the sensibility and the direction of the existing financial trading positions in relation to the various individual risk factors;
- level measures (such as notional and Mark to Market), which are a useful aid to the above indicators as an immediately applicable solution;
- stress tests and scenario analyses that enable the completion of the analysis of the overall risk profile, capturing changes in predetermined assumptions relating to the evolution of the underlying risk factors, also simulating anomalous market conditions (opening of the basis risks, worst case).

The reporting system is continuously updated in order to take into account the evolution of the operations, the organisational structures and the analytical methods and tools available.

Policies for hedging and mitigating risk

In Intesa Sanpaolo and Banca IMI, weekly risk meetings are held during which the main risk factors of the portfolios are discussed. The monitoring and discussions take place on the basis of a series of reports by the Risk Management Department based on standard quantitative indicators (VaR, greeks, and issuer risk) and stress indicators (what if analysis, stress tests on particular macroeconomic scenarios/risk factors, and marginal VaR).
This set of information represents an effective means for deciding polices for the hedging and mitigating of risk, as it enables the provision of detailed recommendations to the trading rooms on the risk profile of the books, and the identification of any idiosyncratic risks and concentrations, and the suggestion of methods for the hedging of exposures considered to be a potential source of future deteriorations in the value of the portfolios.
During the weekly meetings the Risk Management Department ensures the consistency of the positions with the decisions taken in the Group Financial Risks Committee.

Strategies and processes for the ongoing assessment of their effectiveness

At operational level, in addition to the daily reporting (VaR, sensitivities, level measures, control of assigned limits), information is exchanged between the heads of the Business Departments during the abovementioned Risk Meetings called by the heads of the Departments.
More specifically, during the Risk Meetings the risk profile is examined in detail, with the aim of ensuring that operations are conducted in an environment of controlled risk, and the appropriate use of the capital available.

MARKET RISKS/BANKING BOOK

Risk management strategies and processes

Market risk originated by the banking book arises primarily in the Parent Company and in the main subsidiaries that carry out retail and corporate banking.

Specifically, in managing interest rate risk in the banking book, the Intesa Sanpaolo Group seeks to maximise profitability, by adopting operating methods consistent with the general stability of the financial results over the long term. To this end, positions are adopted that are consistent with the strategic views produced during the regular meetings of the Group Financial Risks Committee, which is also responsible for the assessment of the overall risk profile of the Group and its main operational units.

The "structural" foreign exchange risk refers to the exposures deriving from the commercial operations and strategic investment decisions of the Intesa Sanpaolo Group. The main sources of foreign exchange risk consist of foreign currency loans and deposits held by corporate and retail customers, purchases of securities, equity investments and other financial instruments in foreign currencies, and conversion into domestic currency of assets, liabilities and income of branches and banking subsidiaries abroad.

The banking book also includes the exposure to the price risk deriving from the equity investments in companies not fully consolidated and to the foreign exchange risk represented by equity investments in foreign currency, including Group companies.

Structure and organisation of the associated risk management function

Within the Risk Management Department, the market risks of the Banking Book and the Liquidity risk (discussed below) are overseen by the Banking Book Financial Risks Unit, which is responsible for:

- setting out the criteria and methods for the measurement and management of the financial risks of the banking book (interest rate, foreign exchange, minority equity investments and liquidity);
- proposing the system of operational limits and the guidelines for the management of financial risks for the operational units of the Group involving the operations of the banking book;
- measuring the financial risks of the banking book assumed by the Parent Company and the other Group Companies, both directly, through specific outsourcing contracts, and indirectly by consolidating the information originating from the local control units, and verifying compliance by the Group Companies with the limits set by the Statutory Bodies, reporting on their progress to Top Management and the Parent Company's operational structures;
- analysing the overall financial risk profile of the Group's banking book, proposing any corrective measures, within the more general context of the guidelines set out at strategic planning level or by the Corporate Bodies;
- managing the assessment and measurement, for the Parent Company and all the other Group Companies governed by outsourcing contracts, of the effectiveness of the hedging relationships (hedge accounting) required by the IAS/IFRS regulations (for the main Group companies the structures of the Parent Company centralise these activities in order to achieve operational efficiencies and the most effective governance of the process). For the other subsidiaries, it provides direction and guidance;
- supporting the AVM and Strategies Unit in relation to strategic ALM.

Scope of application and characteristics of the risk measurement and reporting system

Two types of measurement have been adopted for the measurement of the financial risks generated by the banking book, namely Value at Risk (VaR) and Sensitivity analysis.

Value at Risk corresponds to the maximum loss that the book can incur in the following ten business days in 99% of cases, on the basis of the volatilities and the historical correlations (of the last 250 business days) between the individual risk factors, consisting, for each foreign currency, of the short-term and long-term interest rates, the exchange rates and the prices of the equities[1].

Shift sensitivity analysis quantifies the change in value of a financial portfolio resulting from adverse movements in the main risk factors (interest rate, foreign exchange, and equity).

Furthermore, sensitivity of the interest margin is measured by quantifying the impact on net interest income of a parallel and instantaneous shock in the interest rate curve, over a period of 12 months.

[1] It should be noted that the calculation models for the VaR have certain limitations, as they are based on the statistical assumption of the normal distribution of the returns and on the observation of historical data that may not be repeated in the future. Consequently, the results of the VaR do not guarantee that the potential future losses will not exceed the statistically calculated estimates.

Policies for hedging and mitigating risk

Hedging of interest rate risk is aimed (i) at protecting the banking book from variations in the fair value of loans and deposits due to movements in the interest rate curve, or (ii) at reducing the volatility of future cash flows related to a particular asset/liability.
The main types of derivative contracts used are interest rate swaps (IRS), overnight index swaps (OIS), cross-currency swaps (CCS) and options on interest rates stipulated with third parties or with other Group companies. The latter, in turn, cover risk in the market so that the hedging transactions meet the criteria to qualify as IAS-compliant for consolidated financial statements.
Hedging activities performed by the Intesa Sanpaolo Group are recorded using various hedge accounting methods. A first method refers to the fair value hedge of assets and liabilities specifically identified (micro-hedging), mainly bonds issued or acquired by the bank and loans to customers. Moreover, macro-hedging is carried out on the stable portion of on demand deposits and in order to cover the risk of fair value changes intrinsic in the instalments under accrual generated by floating rate operations. The Bank is exposed to this risk in the period from the date on which the rate is set and the date of payment of the relevant interests.
Another hedging method used is the cash flow hedge which has the purpose of stabilising interest flow on variable rate funding to the extent that the latter finances fixed-rate investments (macro cash flow hedge). In other cases, cash flow hedges are applied to specific assets or liabilities.
The Risk Management Department is in charge of measuring the effectiveness of interest rate risk hedges for the purpose of hedge accounting, in compliance with international accounting standards.
Foreign exchange risk deriving from operating positions in foreign currency in the banking book is systematically transferred from the business units to the Parent Company's Treasury Department, for the purpose of guaranteeing the elimination of such risk. Similar risk containment is performed by the Group's various companies as concerns their banking book. Essentially, foreign exchange risk is mitigated by the practice of raising funds in the same currency as assets.
As concerns equity shareholdings in Group companies held in foreign currencies, risk hedging policies are assessed for each position by the Group Risk Governance Committee and the Group Financial Risks Committee, taking into consideration the advantages and the costs embedded in hedging transactions.

LIQUIDITY RISK

Liquidity risk is defined as the risk that the bank is not able to meet its payment obligations when they fall due (funding liquidity risk). Normally, the bank is able to cover cash outflows with cash inflows, highly liquid assets and its ability to obtain credit. With regard to the highly liquid assets in particular, there may be strains in the market that make them difficult (or even impossible) to sell or be used as collateral in exchange for funds. From this perspective, the bank's liquidity risk is closely tied to the market liquidity conditions (market liquidity risk).
The Guidelines for Liquidity Risk Management adopted by the Intesa Sanpaolo Group outline the set of principles, methods, regulations and control processes required to prevent the occurrence of a liquidity crisis and call for the Group to develop prudential approaches to liquidity management, making it possible to maintain the overall risk profile at extremely low levels.
The basic principles underpinning the Liquidity Policy of the Intesa Sanpaolo Group are:
- the existence of an operating structure that works within set limits and of a control structure that is independent from the operating structure;
- a prudential approach to the estimation of the cash inflow and outflow projections for all the balance sheet and off-balance sheet items, especially those without a contractual maturity (or with a maturity date that is not significant);
- assessment of the impact of various scenarios, including stress testing scenarios, on the cash inflows and outflows over time;
- maintenance of an adequate level of unencumbered highly liquid assets, capable of enabling ordinary operations, also on an intraday basis, and overcoming the initial stages of a shock involving the Group's liquidity or system liquidity.

Intesa Sanpaolo directly manages its own liquidity, coordinates its management at Group level in all currencies, ensures the adoption of adequate control techniques and procedures, and provides complete and accurate information to the Operational Committees (Group Risk Governance Committee and Group Financial Risks Committee) and the Statutory Bodies.

The departments of the Parent Company that are in charge of ensuring the correct application of the Guidelines are the Treasury Department, responsible for liquidity management, and the Risk Management Department, responsible for monitoring indicators and verifying the observation of limits.
These Guidelines are broken down into three macro areas: "Short term Liquidity Policy", "Structural Liquidity Policy" and "Contingency Liquidity Plan".
The short term Liquidity Policy includes the set of parameters, limits and observation thresholds that enable the measurement, both under normal market conditions and under conditions of stress, of the liquidity risk exposure over the short term, setting the maximum amount of risk to be assumed and ensuring the utmost prudence in its management.
The structural Liquidity Policy of the Intesa Sanpaolo Group incorporates the set of measures and limits designed to control and manage the risks deriving from the mismatch of the medium to long-term maturities of the assets and liabilities, essential for the strategic planning of liquidity management. This involves the adoption of internal limits for the transformation of maturity dates aimed at preventing the medium to long-term operations from giving rise to excessive imbalances to be financed in the short term.
Together with the short term and structural Liquidity Policy, the Guidelines provide for the management methods of a potential liquidity crisis, defined as a situation of difficulty or inability of the Bank to meet its cash commitments falling due, without implementing procedures and/or employing instruments that, due to their intensity or manner of use, do not qualify as ordinary administration.
The Contingency Liquidity Plan, by setting itself the objectives of safeguarding the Group's capital and, at the same time, guaranteeing the continuity of operations under conditions of extreme liquidity emergency, ensures the identification of the pre-warning signals and their ongoing monitoring, the definition of procedures to be implemented in situations of liquidity stress, the immediate lines of action, and the intervention measures for the resolution of emergencies. The pre-warning indexes, aimed at spotting the signs of a potential liquidity strain, both systemic and specific, are continuously recorded and reported to the departments responsible for the management and monitoring of liquidity.
The liquidity position of the Parent Company and the Group Companies is regularly presented by Risk Management Department and discussed during the Group Financial Risks Committee meetings.

OPERATIONAL RISK

Operational risk management strategies and processes

The Intesa Sanpaolo Group has defined the overall operational risk management framework by setting up a Group policy and organisational process for measuring, managing and controlling operational risk.
The control of operational risk was attributed to the Management Board, which identifies risk management policies, and to the Supervisory Board, which is in charge of their approval and verification, as well as of the guarantee of the functionality, efficiency and effectiveness of the risk management and controls system.
The Group Operational Risk Committee (made up of the heads of the areas of the corporate centre and of the business areas more involved in operational risk management), has the task of periodically verifying the Group's overall operational risk profile, defining any corrective actions, coordinating and monitoring the effectiveness of the main mitigation activities and approving the operational risk management transfer strategies.

Organisational structure of the associated risk management function

For some time, the Group has had a centralised function within the Risk Management Department for the management of the Group's operational risks. This function is responsible for the definition, implementation and monitoring of the methodological and organisational framework, as well as for the measurement of the risk profile, the verification of mitigation effectiveness and reporting to Top Management. In compliance with current requirements, the individual organisational units participated in the process and each of them was assigned the responsibility for the identification, assessment, management and mitigation of its operational risks. Specific offices and departments have been identified within these organisational units to be responsible for Operational Risk Management. These functions are responsible for the collection and structured census of information relating to operational events, scenario analyses and evaluation of the level of risk associated with the business environment. The Risk Management Department carries out second level monitoring of these activities.

Scope of application and characteristics of the risk measurement and reporting system

For the use of the Standardised approach (TSA), the Bank has set up, in addition to the corporate governance mechanisms required by the Supervisory regulations, an effective system for the management of operational risk certified by the process of annual self-assessment carried out by the Group Companies that fall within the scope of the TSA. This self-assessment is verified by the internal auditing department and submitted to the corporate bodies for the annual certification of compliance with the requirements established by the regulation.
Under the Standardised approach, the capital requirement is calculated by multiplying gross income by separate regulatory percentages for each of the business lines into which the Banks' activities are divided.
Monitoring of operational risks is performed by an integrated reporting system, which provides management with the information necessary for the management and/or mitigation of the operational risk.

Policies for hedging and mitigating risk

The Intesa Sanpaolo Group has activated a traditional operational risk transfer policy (insurance) with the objective of mitigating the impact of any unexpected losses, and thus contributing to the reduction of Capital at Risk.

OTHER RISKS

The Group has also identified and monitors other risks, consisting of:

- Real Estate: risk associated with an unfavourable change in the value of real estate assets owned;
- Strategic: current or prospective risk of a reduction in profits or capital caused by changes in the business environment, or the erroneous or inadequate implementation of decisions, or poor responsiveness to competitive developments (it is assessed net of the prospective profit);
- Reputational: current or prospective risk of a decline in profits or capital should customers, counterparties, shareholders, investors or supervisors take a negative view of the bank. Reputational risks also include the reputational component of Compliance Risks;
- Insurance: risk associated with the possibility of suffering economic losses on the insurance embedded value (comparison between technical reserves and hedging investments) arising from an unfavourable change in the market (financial risks) and the actuarial assumptions. It also includes the risk associated with the Group's Supplementary Pension Funds.

These risks are incorporated in the measurement of economic capital, used to assess capital adequacy (see Table 4).

Table 2 – Scope of application

Qualitative disclosure

Name of the bank to which the disclosure requirement applies

Intesa Sanpaolo S.p.A., parent company of the banking group "Intesa Sanpaolo", included in the National Register of Banking Groups.

Outline of differences in the basis of consolidation for accounting and prudential purposes

The disclosure contained in this document refers solely to the Intesa Sanpaolo "Banking Group" as defined by the prevailing Regulatory provisions.

The "Banking Group" differs from the scope of consolidation for the purposes of the financial statements prepared in accordance with the IAS/IFRS. The main differences relate to:

– the full consolidation in the financial statements of the insurance segment (Eurizon Vita, CentroVita Assicurazioni, Sud Polo Vita and other minor subsidiaries), not consolidated in the "Banking Group" for Regulatory purposes;
– the proportional consolidation in the "Banking Group" of the jointly controlled entities conducting banking, financial and instrumental business (Findomestic Banca and other minor equity investments) that are consolidated at equity in the financial statements. Please also note that companies are defined as subject to joint control when the voting rights and the control of the economic activities of the company are equally shared by Intesa Sanpaolo and another entity. Furthermore, a company is considered as subject to joint control even when voting rights are not equally shared if control over the economic activities and the strategies of the company is shared based on contractual agreements with other entities.

Given that this disclosure refers only to the figures of the controlled (including jointly) banking, financial and instrumental companies belonging to the "Banking Group", these figures also include the (on- and off-balance sheet) asset and liability and income and expense transactions with the other companies included in the IAS/IFRS scope of full consolidation (especially the insurance segment). In the financial statements, however, these figures are netted as intragroup transactions.

The scope of consolidation used for this document is different to the scope used for the financial statements (governed by the IAS/IFRS); this may generate misalignments between equivalent sets of figures. Any differences between the financial statements figures and this disclosure are therefore noted in specific footnotes to the individual tables.

Basis of consolidation for accounting and prudential purposes

Entities consolidated as at 31 December 2008

Company name	Sector	Registered office		Treatment in prudential reporting			Treatment in financial statements	
		Town	Country	Consolid. line-by-line	Consolid. proportionally	Consolid. at equity	Consolid. line-by-line	Consolid. at equity
BANKS								
INTESA SANPAOLO S.P.A.	BANKING	Torino	ITALY	X			X	
ALLFUNDS BANK S.A.	BANKING	Madrid	SPAIN		X			X
BANCA C.I.S. S.p.A.	BANKING	Cagliari	ITALY	X			X	
BANCA C.R. FIRENZE ROMANIA S.A.	BANKING	Bucarest	ROMANIA	X			X	
BANCA DELL'ADRIATICO S.p.A.	BANKING	Pesaro	ITALY	X			X	
BANCA DI TRENTO E BOLZANO S.p.A.	BANKING	Trento	ITALY	X			X	
BANCA FIDEURAM S.p.A.	BANKING	Roma	ITALY	X			X	
BANCA IMI S.p.A.	BANKING	Milano	ITALY	X			X	
BANCA INFRASTRUTTURE INNOVAZIONE E SVILUPPO S.p.A.	BANKING	Roma	ITALY	X			X	
BANCA INTESA A.D. - BEOGRAD	BANKING	Novi Beograd	REPUBLIC OF SERBIA	X			X	
BANCA PROSSIMA S.p.A.	BANKING	Milano	ITALY	X			X	
BANCO DI NAPOLI S.p.A.	BANKING	Napoli	ITALY	X			X	
BANK OF ALEXANDRIA	BANKING	Cairo	EGYPT	X			X	
BANKA KOPER D.D.	BANKING	Koper	SLOVENIA	X			X	
CASSA DEI RISPARMI DI FORLI' E DELLA ROMAGNA S.p.A. - CARIROMAGNA	BANKING	Forli'	ITALY	X			X	
CASSA DI RISPARMIO DEL FRIULI VENEZIA GIULIA S.p.A.	BANKING	Gorizia	ITALY	X			X	
CASSA DI RISPARMIO DEL VENETO S.p.A.	BANKING	Padova	ITALY	X			X	
CASSA DI RISPARMIO DELLA PROVINCIA DI VITERBO S.p.A.	BANKING	Viterbo	ITALY	X			X	
CASSA DI RISPARMIO DELLA SPEZIA S.P.A.	BANKING	La Spezia	ITALY	X			X	
CASSA DI RISPARMIO DI ASCOLI PICENO S.p.A.	BANKING	Ascoli Piceno	ITALY	X			X	
CASSA DI RISPARMIO DI CITTA' DI CASTELLO S.p.A.	BANKING	Città Di Castello	ITALY	X			X	
CASSA DI RISPARMIO DI CIVITAVECCHIA S.P.A.	BANKING	Civitavecchia	ITALY	X			X	
CASSA DI RISPARMIO DI FIRENZE S.p.A.	BANKING	Firenze	ITALY	X			X	
CASSA DI RISPARMIO DI FOLIGNO S.p.A.	BANKING	Foligno	ITALY	X			X	
CASSA DI RISPARMIO DI ORVIETO S.P.A.	BANKING	Orvieto	ITALY	X			X	
CASSA DI RISPARMIO DI PISTOIA E PESCIA S.P.A.	BANKING	Pistoia	ITALY	X			X	
CASSA DI RISPARMIO DI RIETI S.p.A.	BANKING	Rieti	ITALY	X			X	
CASSA DI RISPARMIO DI SPOLETO S.p.A.	BANKING	Spoleto	ITALY	X			X	
CASSA DI RISPARMIO DI TERNI E NARNI S.p.A.	BANKING	Terni	ITALY	X			X	
CASSA DI RISPARMIO DI VENEZIA S.p.A.	BANKING	Venezia	ITALY	X			X	
CASSA DI RISPARMIO IN BOLOGNA S.p.A.	BANKING	Bologna	ITALY	X			X	
CENTRAL-EUROPEAN INTERNATIONAL BANK Ltd	BANKING	Budapest	HUNGARY	X			X	
CENTRO LEASING BANCA S.p.A.	BANKING	Firenze	ITALY	X			X	
FIDEURAM BANK (MONACO) S.A.M.	BANKING	Monaco	PRINCIPALITY OF MONACO	X			X	
FIDEURAM BANK (Suisse) S.A.	BANKING	Lugano	SWITZERLAND	X			X	
FIDEURAM BANK LUXEMBOURG S.A.	BANKING	Luxembourg	LUXEMBOURG	X			X	
FINDOMESTIC BANCA S.P.A.	BANKING	Firenze	ITALY		X			X
INTESA BANK IRELAND PLC (in voluntary liquidation)*	BANKING	Dublin	IRELAND			X		X
INTESA BANK OVERSEAS Ltd (in voluntary liquidation)*	BANKING	George Town - Grand Cayman	CAYMAN ISLANDS			X		X
INTESA SANPAOLO BANK ALBANIA SH.A.	BANKING	Tirana	ALBANIA	X			X	
INTESA SANPAOLO BANK IRELAND PLC	BANKING	Dublin	IRELAND	X			X	
INTESA SANPAOLO BANKA D.D. BOSNA I HERCEGOVINA	BANKING	Sarajevo	BOSNIA AND HERZEGOVINA	X			X	
INTESA SANPAOLO PRIVATE BANKING S.p.A.	BANKING	Milano	ITALY	X			X	
INTESA SANPAOLO ROMANIA S.A. COMMERCIAL BANK	BANKING	Arad	ROMANIA	X			X	
INTESA SANPAOLO SERVIZI TRANSAZIONALI S.p.A.	BANKING	Milano	ITALY	X			X	
KMB BANK (Closed Joint-Stock Company)	BANKING	Moskow	RUSSIA	X			X	
MEDIMURSKA BANKA D.D.	BANKING	Cakovec	CROATIA	X			X	
MEDIOCREDITO ITALIANO S.p.A.	BANKING	Milano	ITALY	X			X	
NEOS BANCA S.p.A.	BANKING	Bologna	ITALY	X			X	
PBZ STAMBENA STEDIONICA D.D.	BANKING	Zagreb	CROATIA	X			X	
PRAVEX BANK Joint-Stock Commercial Bank	BANKING	Kiev	UKRAINE	X			X	
PRIVREDNA BANKA ZAGREB D.D.	BANKING	Zagreb	CROATIA	X			X	
SANPAOLO BANK (SUISSE) S.A.	BANKING	Lugano	SWITZERLAND	X			X	
SANPAOLO BANK S.A.	BANKING	Luxembourg	LUXEMBOURG	X			X	
SANPAOLO IMI BANK (INTERNATIONAL) S.A.	BANKING	Funchal - Madeira	PORTUGAL	X			X	
SOCIETE' EUROPEENNE DE BANQUE S.A.	BANKING	Luxembourg	LUXEMBOURG	X			X	
VSEOBECNA UVEROVA BANKA A.S.	BANKING	Bratislava	SLOVAKIA	X			X	
ZAO BANCA INTESA Closed Joint-stock Company	BANKING	Moskow	RUSSIA	X			X	
FINANCIAL COMPANIES								
ATLANTIS S.A.	FINANCIAL	Buenos Aires	ARGENTINA	X			X	
B.I. PRIVATE EQUITY Ltd	FINANCIAL	Dublin	IRELAND	X			X	
BANCA IMI SECURITIES CORP.	FINANCIAL	New York	USA	X			X	
BN FINRETE S.p.A. in liquidation*	FINANCIAL	Napoli	ITALY			X		X
CASSE DEL CENTRO S.p.A.	FINANCIAL	Spoleto	ITALY	X			X	

Company name	Sector	Registered office		Treatment in prudential reporting			Treatment in financial statements	
		Town	Country	Consolid. line-by-line	Consolid. proportio-nally	Consolid. at equity	Consolid. line-by-line	Consolid. at equity
CENTRO FACTORING S.p.A.	FINANCIAL	Firenze	ITALY	X			X	
CENTRO LEASING RETE S.P.A.	FINANCIAL	Firenze	ITALY	X			X	
CENTURION FINANCIAL SERVICES Ltd	FINANCIAL	Sarajevo	BOSNIA AND HERZEGOVINA	X			X	
CENTURION Financne storitve D.O.O.	FINANCIAL	Ljubljana	SLOVENIA	X			X	
CIB Credit LTD	FINANCIAL	Budapest	HUNGARY	X			X	
CIB FACTOR FINANCIAL SERVICE LTD.	FINANCIAL	Budapest	HUNGARY	X			X	
CIB INVESTMENT FUND MANAGEMENT LTD.	FINANCIAL	Budapest	HUNGARY	X			X	
CIB LEASING LTD.	FINANCIAL	Budapest	HUNGARY	X			X	
CIB NEW YORK BROKER Zrt.	FINANCIAL	Budapest	HUNGARY	X			X	
CIB REAL ESTATE LTD.	FINANCIAL	Budapest	HUNGARY	X			X	
CIB REAL PROPERTY UTILISATION AND SERVICES LTD.	FINANCIAL	Budapest	HUNGARY	X			X	
CIB RESIDENTIAL PROPERTY LEASING LTD.	FINANCIAL	Budapest	HUNGARY	X			X	
CONSUL SERVICE S.r.l. in liquidation*	FINANCIAL	Cagliari	ITALY			X		X
CONSUMER FINANCE HOLDING A.S.	FINANCIAL	Kezmarok	SLOVAKIA	X			X	
CR FIRENZE Gestion Internationale S.A.	FINANCIAL	Luxembourg	LUXEMBOURG	X			X	
EPSILON ASSOCIATI SGR S.p.A.	FINANCIAL	Milano	ITALY	X			X	
EQUITER S.p.A.	FINANCIAL	Torino	ITALY	X			X	
EURIZON A.I. SGR S.p.A.	FINANCIAL	Milano	ITALY	X			X	
EURIZON ALTERNATIVE INVESTMENTS SGR S.p.A.	FINANCIAL	Milano	ITALY	X			X	
EURIZON CAPITAL S.A.	FINANCIAL	Luxembourg	LUXEMBOURG	X			X	
EURIZON CAPITAL SGR S.p.A.	FINANCIAL	Milano	ITALY	X			X	
EURO-TRESORERIE S.A.	FINANCIAL	Paris	FRANCE	X			X	
FIDEURAM ASSET MANAGEMENT (IRELAND) LTD.	FINANCIAL	Dublin	IRELAND	X			X	
FIDEURAM FIDUCIARIA S.p.A.	FINANCIAL	Roma	ITALY	X			X	
FIDEURAM FRANCE S.A.	FINANCIAL	Paris	FRANCE	X			X	
FIDEURAM GESTIONS S.A.	FINANCIAL	Luxembourg	LUXEMBOURG	X			X	
FIDEURAM INVESTIMENTI - Società di Gestione del Risparmio S.p.A.	FINANCIAL	Roma	ITALY	X			X	
FINANCIERE FIDEURAM S.A.	FINANCIAL	Paris	FRANCE	X			X	
FINANZIARIA B.T.B S.p.A.	FINANCIAL	Trento	ITALY	X			X	
FINOR LEASING D.O.O.	FINANCIAL	Koper	SLOVENIA	X			X	
GE.FI.L. - GESTIONE FISCALITA' LOCALE S.P.A.	FINANCIAL	La Spezia	ITALY	X			X	
IMI CAPITAL MARKETS USA CORP.	FINANCIAL	New York	USA	X			X	
IMI Finance Luxembourg S.A.	FINANCIAL	Luxembourg	LUXEMBOURG	X			X	
IMI INVESTIMENTI S.p.A.	FINANCIAL	Bologna	ITALY	X			X	
IMI INVESTMENTS S.A.	FINANCIAL	Luxembourg	LUXEMBOURG	X			X	
IMIFIN S.p.A. in liquidation*	FINANCIAL	Roma	ITALY			X		X
INTER-EUROPA ERTEKESITESI Kft.	FINANCIAL	Budapest	HUNGARY	X			X	
INTESA DISTRIBUTION INTERNATIONAL SERVICES S.A.	FINANCIAL	Luxembourg	LUXEMBOURG	X			X	
INTESA FUNDING LLC	FINANCIAL	Wilmington - Delaware	USA	X			X	
INTESA GLOBAL FINANCE COMPANY LTD	FINANCIAL	Dublin	IRLANDA	X			X	
INTESA INVESTIMENTI S.p.A.	FINANCIAL	Milano	ITALY	X			X	
INTESA LEASE SEC S.r.l.	FINANCIAL	Milano	ITALY	X			X	
INTESA LEASING D.O.O. BEOGRAD	FINANCIAL	Beograd	REPUBLIC OF SERBIA	X			X	
INTESA PREFERRED CAPITAL COMPANY LLC	FINANCIAL	Wilmington - Delaware	USA	X			X	
INTESA PREVIDENZA - SOCIETA' D'INTERMEDIAZIONE MOBILIARE S.p.A.	FINANCIAL	Milano	ITALY	X			X	
INTESA SANPAOLO HOLDING INTERNATIONAL S.A.	FINANCIAL	Luxembourg	LUXEMBOURG	X			X	
INTESA SEC. 2 S.r.l.	FINANCIAL	Milano	ITALY	X			X	
INTESA SEC. 3 S.r.l.	FINANCIAL	Milano	ITALY	X			X	
INTESA SEC. NPL S.p.A.	FINANCIAL	Milano	ITALY	X			X	
INTESA SEC. S.p.A.	FINANCIAL	Milano	ITALY	X			X	
INTESABCI PREFERRED CAPITAL COMPANY LLC III DELAWARE	FINANCIAL	Wilmington - Delaware	USA	X			X	
INTESABCI PREFERRED SECURITIES INVESTOR TRUST	FINANCIAL	Newark - Delaware	USA	X			X	
INTESATRADE S.I.M. S.p.A.	FINANCIAL	Milano	ITALY	X			X	
INVERSIONES MOBILIARIAS S.A. "IMSA"	FINANCIAL	Lima	PERU	X			X	
KMB-LEASING (CLOSED JOINT STOCK COMPANY)	FINANCIAL	Moscow	RUSSIA	X			X	
LDV HOLDING B.V. IN LIQUIDATION	FINANCIAL	Amsterdam	THE NETHERLANDS	X			X	
LEASINT S.p.A.	FINANCIAL	Milano	ITALY	X			X	
LIMA SUDAMERIS HOLDING S.A. in liquidation	FINANCIAL	Lima	PERU	X			X	
LUX GEST ASSET MANAGEMENT S.A.	FINANCIAL	Luxembourg	LUXEMBOURG	X			X	
MEDIOFACTORING S.p.A.	FINANCIAL	Milano	ITALY	X			X	
MONETA S.p.A.	FINANCIAL	Bologna	ITALY	X			X	
NEOS FINANCE S.p.A.	FINANCIAL	Bologna	ITALY	X			X	
NHS Investments S.A.	FINANCIAL	Luxembourg	LUXEMBOURG	X			X	
PBZ Card D.O.O.	FINANCIAL	Zagreb	CROATIA	X			X	
PBZ Invest D.O.O.	FINANCIAL	Zagreb	CROATIA	X			X	
PBZ Leasing D.O.O. za poslove leasinga	FINANCIAL	Zagreb	CROATIA	X			X	
PRIVATE EQUITY INTERNATIONAL S.A.	FINANCIAL	Luxembourg	LUXEMBOURG	X			X	
RECOVERY A.S.	FINANCIAL	Bratislava	SLOVAKIA	X			X	

		Town	Country	Consolid. line-by-line	Consolid. proportionally	Consolid. at equity	Consolid. line-by-line	Consolid. at equity
SANPAOLO FIDUCIARIA S.p.A.	FINANCIAL	Milano	ITALY	X			X	
SANPAOLO IMI Capital Company I, L.L.C.	FINANCIAL	Wilmington - Delaware	USA	X			X	
SANPAOLO IMI Fondi Chiusi Società di Gestione del Risparmio S.p.A.	FINANCIAL	Bologna	ITALY	X			X	
SANPAOLO IMI Investimenti per lo Sviluppo SGR S.p.A.	FINANCIAL	Napoli	ITALY	X			X	
SANPAOLO IMI U.S. FINANCIAL CO.	FINANCIAL	Wilmington - Delaware	USA	X			X	
SANPAOLO INVEST IRELAND LIMITED	FINANCIAL	Dublin	IRELAND	X			X	
SANPAOLO INVEST Società di Intermediazione Mobiliare S.p.A.	FINANCIAL	Roma	ITALY	X			X	
SEB TRUST Ltd.	FINANCIAL	St. Helier	JERSEY	X			X	
SETEFI - SERVIZI TELEMATICI FINANZIARI PER IL TERZIARIO S.p.A.	FINANCIAL	Milano	ITALY	X			X	
SOCIETA' ITALIANA DI REVISIONE E FIDUCIARIA S.I.RE.F. S.p.A.	FINANCIAL	Milano	ITALY	X			X	
SUDAMERIS S.A.	FINANCIAL	Paris	FRANCE	X			X	
TOBUK LIMITED*	FINANCIAL	Dublin	IRELAND			X		X
VUB ASSET MANAGEMENT SPRAVCOVSKA SPOLOCNOST A.S.	FINANCIAL	Bratislava	SLOVAKIA	X			X	
VUB FACTORING A.S.	FINANCIAL	Bratislava	SLOVAKIA	X			X	
VUB LEASING a.s.	FINANCIAL	Bratislava	SLOVAKIA	X			X	
VUB LEASINGOVA A.S.	FINANCIAL	Bratislava	SLOVAKIA	X			X	
INSTRUMENTAL COMPANIES								
CIB INSURANCE BROKER LTD.	INSTRUMENTAL	Budapest	HUNGARY	X			X	
CIB RENT OPERATIVE LEASING LTD.	INSTRUMENTAL	Budapest	HUNGARY	X			X	
CIB SERVICE PROPERTY UTILISATION AND SERVICES LTD.	INSTRUMENTAL	Budapest	HUNGARY	X			X	
CIL BUDA SQUARE LTD.	INSTRUMENTAL	Budapest	HUNGARY	X			X	
CITYLIFE S.P.A.*	INSTRUMENTAL	Firenze	ITALY			X		X
CONSORZIO STUDI E RICERCHE FISCALI - GRUPPO INTESA SANPAOLO*	INSTRUMENTAL	Roma	ITALY			X		X
ENERPOINT ENERGY S.r.l.	INSTRUMENTAL	Desio	ITALY			X		X
ERFI 2000 INGATLAN Kft	INSTRUMENTAL	Budapest	HUNGARY	X			X	
GREEN INITIATIVE CARBON ASSETS (GICA) SA	INSTRUMENTAL	Lugano	SWITZERLAND			X		X
IE-SERVICES SZOLGALTATO ES KERESKEDELMI Kft.	INSTRUMENTAL	Budapest	HUNGARY	X			X	
IMMIT - IMMOBILI ITALIANI S.p.A.	INSTRUMENTAL	Torino	ITALY	X			X	
IMMOBILIARE NUOVA SEDE S.R.L.	INSTRUMENTAL	Firenze	ITALY	X			X	
INFOGROUP S.P.A.	INSTRUMENTAL	Firenze	ITALY	X			X	
INTER-EUROPA BERUHAZO Kft.	INSTRUMENTAL	Budapest	HUNGARY	X			X	
INTESA REAL ESTATE S.r.l.	INSTRUMENTAL	Milano	ITALY	X			X	
INTESA SANPAOLO REAL ESTATE ROMANIA S.A.*	INSTRUMENTAL	Arad	ROMANIA			X		X
INVEST HOLDING D.O.O.	INSTRUMENTAL	Karlovac	CROATIA	X			X	
LELLE SPC - REAL ESTATE INVESTMENT AND TRADING CO.	INSTRUMENTAL	Budapest	HUNGARY	X			X	
PBZ NEKRETNINE D.O.O.	INSTRUMENTAL	Zagreb	CROATIA	X			X	
SANPAOLO IMMOBILIERE S.A.	INSTRUMENTAL	Luxembourg	LUXEMBOURG	X			X	
SANPAOLO REAL ESTATE S.A.	INSTRUMENTAL	Luxembourg	LUXEMBOURG	X			X	
SEP - Servizi e Progetti S.p.A.	INSTRUMENTAL	Torino	ITALY	X			X	
SERVITIA S.A.	INSTRUMENTAL	Luxembourg	LUXEMBOURG	X			X	
SUDAMERIS INMOBILIARIA S.A.*	INSTRUMENTAL	Panama City	PANAMA			X		X
TEBE TOURS S.P.A.*	INSTRUMENTAL	Mirandola	ITALY			X		X

(*) Banking Group's subsidiary consolidated at equity for immateriality

Entities deducted from capital as at 31 December 2008

Company name	Sector	Registered office		Treatment in prudential reporting	Treatment in financial statements		
		Town	Country	Deductions from capital	Consolidated line-by-line	Consolid. at equity	AFS
INSURANCE COMPANIES							
CENTROVITA ASSICURAZIONI S.P.A.	INSURANCE	Firenze	ITALY	X	X		
EURIZON VITA S.p.A.	INSURANCE	Torino	ITALY	X	X		
INTESA VITA S.p.A.	INSURANCE	Milano	ITALY	X		X	
PBZ Croatia Osiguranje Public Limited Company for Compulsory Pension Fund Management	INSURANCE	Zagreb	CROATIA	X		X	
SUD POLO VITA S.p.A.	INSURANCE	Torino	ITALY	X	X		
VUB GENERALI DOCHODKOVA SPRAVCOVSKA SPOLOCNOST A.S.	INSURANCE	Bratislava	SLOVAKIA	X		X	
BANKS							
BANCA D'ITALIA	CENTRAL BANK	Roma	ITALY	X		at cost	
BANCA IMPRESA LAZIO S.p.A.	BANKING	Roma	ITALY	X		X	
BANQUE ESPIRITO SANTO ET DE LA VENETIE S.A.	BANKING	Paris	FRANCE	X			X
CASSA DI RISPARMIO DELLA PROVINCIA DI CHIETI S.p.A.	BANKING	Chieti Scalo	ITALY	X			X
CASSA DI RISPARMIO DI FERMO S.p.A.	BANKING	Fermo	ITALY	X		X	
ISTITUTO PER IL CREDITO SPORTIVO	BANKING	Roma	ITALY	X			X

Company name	Sector	Registered office		Treatment in prudential reporting	Treatment in financial statements		
		Town	Country	Deductions from capital	Consolidated line-by-line	Consolid. at equity	AFS
FINANCIAL COMPANIES							
21 INVESTIMENTI S.p.A.	FINANCIAL	Treviso	ITALY	X			X
AMBIENTA Società di Gestione del Risparmio S.p.A.	FINANCIAL	Milano	ITALY	X		X	
BAMCARD D.D.	FINANCIAL	Sarajevo	BOSNIA AND HERZEGOVINA	X			X
CEDAR STREET SECURITIES CORP.	FINANCIAL	New York	USA	X		X	
CHESS VENTURES Ltd	FINANCIAL	George Town	CAYMAN ISLANDS	X			X
COFRAGEF S.A. - COMPAGNIE FRANCAISE DE GESTION FINANCIERE IN LIQUIDATION	FINANCIAL	Paris	FRANCE	X		X	
EQUINOX INVESTMENT COMPANY S.c.p.a.	FINANCIAL	Luxembourg	LUXEMBOURG	X			X
EQUINOX TWO SCA	FINANCIAL	Luxembourg	LUXEMBOURG	X			X
EVOLUZIONE 94 S.p.A. in liquidation	FINANCIAL	Milano	ITALY	X		X	
F2I - Fondi Italiani per le Infrastrutture SGR S.p.A.	FINANCIAL	Milano	ITALY	X			X
FIDI TOSCANA S.p.A.	FINANCIAL	Firenze	ITALY	X			X
FIDIA-FONDO INTERBANCARIO D'INVESTIMENTO AZIONARIO SGR S.p.A.	FINANCIAL	Milano	ITALY	X			X
FINANZIARIA LAGO S.p.A.	FINANCIAL	Mariano Comense	ITALY	X			X
FINEUROP S.p.A.	FINANCIAL	Milano	ITALY	X			X
GCL HOLDINGS L.P. S.à.r.l.	FINANCIAL	Luxembourg	LUXEMBOURG	X		X	
GEPAFIN S.p.A.-GARANZIE PARTECIPAZIONI E FINANZIAMENTI	FINANCIAL	Perugia	ITALY	X			X
GESTIONES Y RECUPERACIONES DE ACTIVOS S.A.	FINANCIAL	Lima	PERU	X		X	
INTESA BRASIL EMPREENDIMENTOS S.A.	FINANCIAL	Sao Paulo	BRAZIL	X		X	
INTESA SODITIC TRADE FINANCE LIMITED	FINANCIAL	London	UNITED KINGDOM	X		X	
IPEF PARTNERS LTD in liquidation - London	FINANCIAL	London	UNITED KINGDOM	X			X
ISP CB IPOTECARIO S.r.l.	FINANCIAL	Milano	ITALY	X		X	
ISP CB PUBBLICO S.r.l.	FINANCIAL	Milano	ITALY	X		X	
ISP SEC. 4 S.r.l.	FINANCIAL	Milano	ITALY	X		X	
ITALFONDIARIO S.p.A.	FINANCIAL	Roma	ITALY	X		X	
LA COMPAGNIA FINANZIARIA S.p.A.	FINANCIAL	Milano	ITALY	X			X
LUXIPRIVILEGE CONSEIL S.A.	FINANCIAL	Luxembourg	LUXEMBOURG	X		X	
MANDARIN CAPITAL MANAGEMENT S.A.	FINANCIAL	Luxembourg	LUXEMBOURG	X		X	
MANDARIN CAPITAL PARTNERS SCA SICAR	FINANCIAL	Luxembourg	LUXEMBOURG	X			X
MARCHE CAPITAL S.p.A.	FINANCIAL	Osimo	ITALY	X			X
MENHIR L.L.P.	FINANCIAL	London	UNITED KINGDOM	X			X
MEZZANOVE CAPITAL (SCA) SICAR	FINANCIAL	Luxembourg	LUXEMBOURG	X			X
MEZZANOVE CAPITAL MANAGEMENT S.à.r.l.	FINANCIAL	Luxembourg	LUXEMBOURG	X			X
MISR ALEXANDRIA FOR FINANCIAL INVESTMENTS MUTUAL FUND CO.	FINANCIAL	Cairo	EGYPT	X		X	
MISR FINANCIAL INVESTMENTS CO.	FINANCIAL	Giza	EGYPT	X			X
OBIETTIVO NORDEST SICAV	FINANCIAL	Venezia Marghera	ITALY	X		X	
PENGHUA FUND MANAGEMENT Co. Ltd.	FINANCIAL	Shenzhen	PEOPLE'S REPUBLIC OF CHINA	X		X	
S.A.F.I. S.R.L.	FINANCIAL	Spinea	ITALY	X		X	
SANPAOLO IMI Equity Management S.A.	FINANCIAL	Luxembourg	LUXEMBOURG	X		X	
SI Holding S.p.A.	FINANCIAL	Milano	ITALY	X		X	
SLOVAK BANKING CREDIT BUREAU S.R.O.	FINANCIAL	Bratislava	SLOVAKIA	X		X	
SOCIETA' PER LA GESTIONE DI ATTIVITA' - SGA S.p.A.	FINANCIAL	Napoli	ITALY	X			X
SOPRARNO S.G.R. S.P.A.	FINANCIAL	Firenze	ITALY	X		X	
SPEZIA RISORSE S.P.A.	FINANCIAL	La Spezia	ITALY	X		X	
SVILUPPO IMPRESE CENTRO ITALIA S.G.R. S.P.A.	FINANCIAL	Firenze	ITALY	X			X
SVILUPPO INDUSTRIALE S.P.A.	FINANCIAL	Pistoia	ITALY	X		X	
VARESE INVESTIMENTI S.p.A.	FINANCIAL	Varese	ITALY	X		X	
VER CAPITAL S.G.R. p.A.	FINANCIAL	Milano	ITALY	X			X

For the sake of completeness please note that 4/5 of the investment in the Bank of Italy is deducted from the Regulatory Capital and 1/5 is added to the risk-weighted assets.

Entities added to the risk-weighted assets as at 31 December 2008

Company name	Sector	Registered office		Treatment in prudential reporting	Treatment in financial statements	
		Town	Country	RWA	AFS	Consolidat. at equity
BANKS						
A BANKA VIPA LJUBLJANA D.D.	BANKING	Ljubljana	SLOVENIA	X	X	
AFRICAN EXPORT IMPORT BANK	BANKING	Cairo	EGYPT	X	X	
BANCA DELLE MARCHE S.p.A.	BANKING	Ancona	ITALY	X	X	
BANCA DI CREDITO COOPERATIVO DI CAMBIANO S.C.P.A.	BANKING	Castelfiorentino	ITALY	X	X	
BANCA GENERALI S.p.A.	BANKING	Trieste	ITALY	X	X	
BANCA UBAE Società per Azioni	BANKING	Roma	ITALY	X	X	
BANCO PATAGONIA S.A.	BANKING	Buenos Aires	ARGENTINA	X	X	
BANCO POPOLARE SOCIETA' COOPERATIVA	BANKING	Verona	ITALY	X	X	
BANQUE GALLIERE S.A. in liquidation	BANKING	Paris	FRANCE	X	X	
BANQUE INTERNATIONALE ARABE DE TUNISIE - B.I.A.T.	BANKING	Tunis	TUNISIA	X	X	
CASSA DI RISPARMIO DI RAVENNA S.p.A.	BANKING	Ravenna	ITALY	X	X	
HRVATSKA GOSPODARSKA BANKA D.D.	BANKING	Zagreb	CROATIA	X	X	
ISVEIMER S.p.A. in liquidation	BANKING	Roma	ITALY	X	X	
MB BANKA AKCIONARSKO DRUSTVO NIS - IN LIQUIDATION	BANKING	Nis	REPUBLIC OF SERBIA	X	X	
MEDIOCREDITO DEL FRIULI-VENEZIA GIULIA S.p.A.	BANKING	Udine	ITALY	X	X	
METALS BANKA A.D.	BANKING	Novi Sad	REPUBLIC OF SERBIA	X	X	
NATIXIS S.A.	BANKING	Paris	FRANCE	X	X	
NLB LHB BANK	BANKING	Beograd	REPUBLIC OF SERBIA	X	X	
OSEO FINANCEMENT	BANKING	Maisons-Alfort	FRANCE	X	X	
POSTANSKA STEDIONICA A.D.	BANKING	Beograd	REPUBLIC OF SERBIA	X	X	
PRIVREDNA BANKA D.D. IN LIQUIDATION	BANKING	Sarajevo	HERZEGOVINA	X	X	
FINANCIAL COMPANIES						
21 CENTRALE PARTNERS III FCPR	FINANCIAL	Paris	FRANCE	X	X	
360 CAPITAL ONE S.C.A. (SICAR) - Luxembourg	FINANCIAL	Luxembourg	LUXEMBOURG	X	X	
ABE CLEARING SAS	FINANCIAL	Paris	FRANCE	X	X	
ANGELVENTURES SERVICOS DE CONSULTORIA S.A.	FINANCIAL	Funchal Madeira	PORTUGAL	X	X	
APAX EUROPE VII - B L.P.	FINANCIAL	St. Peter Port	GUERNSEY	X	X	
ARAB TRADE FINANCING PROGRAM	FINANCIAL	Abu Dhabi	ABU DHABI	X	X	
ASSOCIAZIONE IN PARTECIPAZIONI RETEX	FINANCIAL	Venezia	ITALY	X	X	
ATHENA PRIVATE EQUITY S.A.	FINANCIAL	Luxembourg	LUXEMBOURG	X	X	
AUGUSTO S.r.l.	FINANCIAL	Milano	ITALY	X		X
B.GROUP S.p.A.	FINANCIAL	Bologna	ITALY	X	X	
BANCA DELLE MARCHE GESTIONE INTERNAZIONALE S.A.	FINANCIAL	Luxembourg	LUXEMBOURG	X	X	
BANKART D.O.O. LJUBLJANA	FINANCIAL	Ljubljana	SLOVENIA	X	X	
BLUE GEM LUXEMBOURG 1 S.A.R.L.	FINANCIAL	Luxembourg	LUXEMBOURG	X	X	
BUDAPESTI ERTEKTOZSDE RESZVENYTARSASAG Rt.	FINANCIAL	Budapest	HUNGARY	X	X	
BURSA MONETAR FINANCIARA SI DE MARFURI S.A.	FINANCIAL	Sibiu	ROMANIA	X	X	
CARLYLE EUROPE PARTNERS II, L.P.	FINANCIAL	London	UNITED KINGDOM	X	X	
CASA ROMANA DE COMPENSATIE S.A.	FINANCIAL	Sibiu	ROMANIA	X	X	
CASSA DI LIQUIDAZIONE E GARANZIA S.p.A. in liquidation	FINANCIAL	Trieste	ITALY	X	X	
CASTELLO SOCIETA' DI GESTIONE DEL RISPARMIO S.p.A.	FINANCIAL	Milano	ITALY	X	X	
CENTRADIA GROUP LIMITED (in liquidation)	FINANCIAL	London	UNITED KINGDOM	X		X
CENTRALNA KLIRINSKO DEPOTNA DRUZBA D.D.	FINANCIAL	Ljubljana	SLOVENIA	X	X	
CENTROFIDI TERZIARIO S.C.P.A.	FINANCIAL	Firenze	ITALY	X	X	
CHINA INTERNATIONAL PACKAGING LEASING CO. LTD (LEASEPACK)	FINANCIAL	Beijing	CHINA	X	X	
CISI ABRUZZO S.p.A.	FINANCIAL	Mosciano Sant'Angelo (Teramo)	ITALY	X	X	
COLOMBO S.r.l.	FINANCIAL	Milano	ITALY	X		X
CONFIDICOOP MARCHE S.c.a.r.l.	FINANCIAL	Ancona	ITALY	X	X	
CONSORZIO BANCARIO SIR S.p.A in liquidation	FINANCIAL	Roma	ITALY	X		X
CR FIRENZE MUTUI S.R.L.	FINANCIAL	Conegliano Veneto	ITALY	X		X
CREDIT AGRICOLE ALTERNATIVE INVESTMENT PRODUCTS GROUP SOCIETA' DI GESTIONE DEL RISPARMIO S.p.A.	FINANCIAL	Milano	ITALY	X	X	
DIOCLEZIANO S.r.l.	FINANCIAL	Milano	ITALY	X		X
EGYPTIAN INTERNATIONAL MUTUAL FUND CO.	FINANCIAL	Cairo	EGYPT	X	X	
e-MID Società di Intermediazione Mobiliare S.p.A.	FINANCIAL	Milano	ITALY	X	X	
EQUITYPAR-COMPANHIA DE PARTECIPACOES S.A.	FINANCIAL	Sao Paulo	BRAZIL	X	X	
EURIZONVITA (Beijing) BUSINESS ADVISORY CO. LTD.	FINANCIAL	Beijing	CHINA	X		X
EUROCASSE SIM S.p.A. in liquidation	FINANCIAL	Milano	ITALY	X	X	
EUROCLEAR CLEARANCE SYSTEM PUBLIC LIMITED COMPANY	FINANCIAL	London	UNITED KINGDOM	X	X	
EUROFIDI - SOCIETA' CONSORTILE DI GARANZIA COLLETTIVA FIDI S.c.p.A.	FINANCIAL	Torino	ITALY	X	X	
EUROPROGETTI E FINANZA S.p.A.	FINANCIAL	Roma	ITALY	X		X
EUROQUBE S.A. in liquidation	FINANCIAL	Brussels	BELGIUM	X	X	
FAWRY FOR BANKING & PAYMENT TECHNOLOGY SERVICES CO.	FINANCIAL	Cairo	EGYPT	X	X	
FI.R.A. S.p.A. Finanziaria Regionale Abruzzese	FINANCIAL	Pescara	ITALY	X	X	
FI.SVI. - ISTITUTO FIN. SVIL. ECON. LOCALI S.p.A. (fallita)	FINANCIAL	Potenza	ITALY	X	X	
FIDIMPRESA LIGURIA - Società Consortile per azioni di garanzia collettiva fidi	FINANCIAL	Genova	ITALY	X	X	
FINANZIARIA DI SVILUPPO S.p.A. in liquidation	FINANCIAL	Rovigo	ITALY	X	X	
FINEST S.p.A. - SOC. FINANZIARIA PROMOZIONE COOPERAZ.ECONOMICA PAESI EST EUROPEO	FINANCIAL	Pordenone	ITALY	X	X	
FINPROGETTI-FINANZIARIA PRIVATA DI PARTECIPAZIONI S.p.A.	FINANCIAL	Milano	ITALY	X	X	
FINRECO - Consorzio Regionale Garanzia Fidi Soc. Coop. a r.l.	FINANCIAL	Udine	ITALY	X	X	

Company name	Sector	Registered office		Treatment in prudential reporting	Treatment in financial statements	
		Town	Country	RWA	AFS	Consolidat. at equity
FORNARA - Società Finanziaria e di Partecipazioni S.p.A.	FINANCIAL	Torino	ITALY	X	X	
FOURTH CINVEN FUND LIMITED PARTNERSHIP - LONDON	FINANCIAL	Londra	REGNO UNITO	X	X	
FRIULIA S.p.A.-FINANZIARIA REG. FRIULI VENEZIA GIULIA	FINANCIAL	Trieste	ITALY	X	X	
GARANTIQA HITELGARANCIA Zrt.	FINANCIAL	Budapest	HUNGARY	X	X	
GIRO Elszamolasforgalmi Zrt.	FINANCIAL	Budapest	HUNGARY	X	X	
GPA ATR LTD	FINANCIAL	Shannon	IRELAND	X	X	
HOPA S.p.A.-HOLDING DI PARTECIPAZIONI AZIENDALI	FINANCIAL	Brescia	ITALY	X	X	
IFAS GRUPPO S.p.A. in liquidation	FINANCIAL	Torino	ITALY	X		X
ILP III SCA SICAR	FINANCIAL	Luxembourg	LUXEMBOURG	X	X	
INIZIATIVE SARDEGNA S.p.A. - IN.SAR.	FINANCIAL	Cagliari	ITALY	X	X	
INVESTINDUSTRIAL III L.P.	FINANCIAL	London	UNITED KINGDOM	X	X	
INVESTINDUSTRIAL IV L.P.	FINANCIAL	St. Helier Jersey	JERSEY	X	X	
INVESTINDUSTRIAL L.P.	FINANCIAL	St. Helier Jersey	JERSEY	X	X	
INVESTITORI ASSOCIATI II S.A. IN LIQUIDATION	FINANCIAL	Luxembourg	LUXEMBOURG	X	X	
INVESTITORI ASSOCIATI S.A. IN LIQUIDATION	FINANCIAL	Luxembourg	LUXEMBOURG	X	X	
ISTITUTO ATESINO DI SVILUPPO S.p.A.	FINANCIAL	Trento	ITALY	X	X	
ITAS HOLDING S.r.l.	FINANCIAL	Trento	ITALY	X	X	
L - CAPITAL	FINANCIAL	Paris	FRANCE	X	X	
LBMB PARTNERS IV SCA SICAR	FINANCIAL	Luxembourg	LUXEMBOURG	X	X	
LCH.Clearnet Group Ltd	FINANCIAL	London	UNITED KINGDOM	X	X	
LICO LEASING S.A.	FINANCIAL	Madrid	SPAIN	X	X	
LIGURCAPITAL S.P.A.	FINANCIAL	Genova	ITALY	X	X	
MANTERO FINANZIARIA S.p.A.	FINANCIAL	Como	ITALY	X	X	
MASTERCARD Inc.	FINANCIAL	Wilmington - County Of Newcastle - Delaware	USA	X	X	
MISR FOR CENTRAL CLEARING, DEPOSITORY AND REGISTRY CO.	FINANCIAL	Cairo	EGYPT	X	X	
MTS S.p.A.	FINANCIAL	Roma	ITALY	X	X	
NEW YORK STOCK EXCHANGE	FINANCIAL	New York	USA	X	X	
NEXTRA INTERNATIONAL SICAV	FINANCIAL	Luxembourg	LUXEMBOURG	X	X	
NFD INVESTICIJSKI SKLAD	FINANCIAL	Ljubljana	SLOVENIA	X	X	
NICCO UCO ALLIANCE CREDIT LTD	FINANCIAL	Calcutta	INDIA	X	X	
OMNIA FACTOR S.p.A.	FINANCIAL	Milano	ITALY	X	X	
OSEO GARANTIE	FINANCIAL	Maisons-Alfort	FRANCE	X	X	
PAR.FIN S.p.A. in fallimento	FINANCIAL	Bari	ITALY	X	X	
PENSPLAN INVEST SGR S.p.A.	FINANCIAL	Bolzano	ITALY	X	X	
PRESAFIN S.p.A.	FINANCIAL	Torino	ITALY	X	X	
S.F.I.R.S. - SOCIETA' FINANZIARIA INDUSTRIALE RINASCITA SARDEGNA S.p.A.	FINANCIAL	Cagliari	ITALY	X	X	
SERENISSIMA S.G.R. S.p.A.	FINANCIAL	Verona	ITALY	X	X	
SOCIETA' ITALIANA PER LE IMPRESE ALL'ESTERO - SIMEST S.p.A.	FINANCIAL	Roma	ITALY	X	X	
SOCIETA' REGIONALE DI GARANZIA MARCHE S.C.p.A.	FINANCIAL	Ancona	ITALY	X	X	
SOCIETA' REGIONALE PER LA PROMOZIONE DELLO SVILUPPO ECONOMICO DELL'UMBRIA S.p.A.	FINANCIAL	Perugia	ITALY	X	X	
SOCIETE' DE LA BOURSE DE LUXEMBOURG S.A.	FINANCIAL	Luxembourg	LUXEMBOURG	X	X	
SOCIETE' D'ETUDE PRIVEE SARL	FINANCIAL	Paris	FRANCE	X	X	
SREDISNJA DEPOZITARNA AGENCIJA D.D.	FINANCIAL	Zagreb	CROATIA	X	X	
SUMMA FINANCE S.p.A.	FINANCIAL	Bologna	ITALY	X	X	
SVILUPPO TM S.p.A.	FINANCIAL	Milano	ITALY	X	X	
TRANSFOND S.A.	FINANCIAL	Bucarest	ROMANIA	X	X	
TRZISTE NOVCA AD	FINANCIAL	Beograd	REPUBLIC OF SERBIA	X	X	
TRZISTE NOVCA I KRATKOROCNIH VRIJEDNOSNICA D.D.	FINANCIAL	Zagreb	CROATIA	X	X	
TWICE SIM S.p.A.	FINANCIAL	Milano	ITALY	X	X	
UMBRIA CONFIDI SOCIETA' COOPERATIVA	FINANCIAL	Perugia	ITALY	X	X	
VALDIVIA LBO FUND LIMITED	FINANCIAL	St. Peter Port - Guernsey	GUERNSEY	X	X	
VENETO SVILUPPO S.p.A.	FINANCIAL	Venezia Marghera	ITALY	X	X	
VISA EUROPE LTD	FINANCIAL	London	UNITED KINGDOM	X	X	
VISA INC.	FINANCIAL	Wilmington - Delaware 19801 New Castle County	USA	X	X	
ZAGREBACKA BURZA D.D.	FINANCIAL	Zagreb	CROATIA	X	X	
NON-FINANCIAL COMPANIES						
AEROPORTI HOLDING S.r.l.	NON-FINANCIAL	Torino	ITALY	X		X
AGRICOLA INVESTIMENTI S.r.l. in liquidation	NON-FINANCIAL	Milano	ITALY	X		X
AL.FA. - UN'ALTRA FAMIGLIA DOPO DI NOI - IMPRESA SOCIALE S.r.l.	NON-FINANCIAL	Milano	ITALY	X		X
AUTOSTRADE LOMBARDE S.p.A.	NON-FINANCIAL	Bergamo	ITALY	X		X
C.A.I. Compagnia Aerea Italiana S.p.A.	NON-FINANCIAL	Milano	ITALY	X		X
CARICESE S.r.l.	NON-FINANCIAL	Bologna	ITALY	X		X
CE.SPE.VI S.R.L. CENTRO SPERIMENTALE PER IL VIVAISMO	NON-FINANCIAL	Pistoia	ITALY	X		X
CENTRO LEASING GMBH	NON-FINANCIAL	Bad Homburg V.D. Hoehe	GERMANY	X		X
CIL MNM LTD.	NON-FINANCIAL	Budapest	HUNGARY	X		X
CIL-GOLF LTD.	NON-FINANCIAL	Budapest	HUNGARY	X		X
CIL-LOG LTD.	NON-FINANCIAL	Budapest	HUNGARY	X		X
COLLEGAMENTO FERROVIARIO GENOVA-MILANO S.p.A.	NON-FINANCIAL	Genova	ITALY	X		X
CONSORZIO PER GLI STUDI UNIVERSITARI A DISTANZA "F. CORONGIU" S.c.a.r.l. - in liquidation	NON-FINANCIAL	Cagliari	ITALY	X		X
CORMANO S.r.l.	NON-FINANCIAL	Olgiate Olona	ITALY	X		X
COTONIFICIO BRESCIANO OTTOLINI - C.B.O. S.r.l. in liquidation	NON-FINANCIAL	Salo'	ITALY	X		X
DATA SERVICE S.p.A.	NON-FINANCIAL	Roma	ITALY	X		X
EMIL EUROPE '92 S.r.l. in liquidation	NON-FINANCIAL	Bologna	ITALY	X		X

Company name	Sector	Registered office		Treatment in prudential reporting	Treatment in financial statements	
		Town	Country	RWA	AFS	Consolidat. at equity
ESAOTE S.p.A.	NON-FINANCIAL	Milano	ITALY	X		X
EUROMILANO S.p.A.	NON-FINANCIAL	Milano	ITALY	X		X
F.I.L.A. FABBRICA ITALIANA LAPIS ED AFFINI S.p.A.	NON-FINANCIAL	Milano	ITALY	X		X
GRANDE JOLLY S.r.l.	NON-FINANCIAL	Milano	ITALY	X		X
I.TRE - Iniziative Immobiliari Industriali S.p.A.	NON-FINANCIAL	Rovigo	ITALY	X		X
IDRA PARTECIPAZIONI S.r.l. in liquidation	NON-FINANCIAL	Milano	ITALY	X		X
IMPIANTI S.r.l. in liquidation	NON-FINANCIAL	Milano	ITALY	X		X
INFRAGRUPPO S.p.A.	NON-FINANCIAL	Bergamo	ITALY	X		X
INTERNATIONAL ENTERTAINMENT S.p.A.	NON-FINANCIAL	Roma	ITALY	X		X
INTESA SANPAOLO FORMAZIONE Società Consortile per Azioni	NON-FINANCIAL	Napoli	ITALY	X		X
INTESASANPAOLO EURODESK S.p.r.l.	NON-FINANCIAL	Brussels	BELGIUM	X		X
ISM INVESTIMENTI S.p.A.	NON-FINANCIAL	Mantova	ITALY	X		X
LEONARDO TECHNOLOGY S.p.A.	NON-FINANCIAL	Milano	ITALY	X		X
MATER-BI S.p.A.	NON-FINANCIAL	Milano	ITALY	X		X
MEGA INTERNATIONAL S.p.A.	NON-FINANCIAL	Faenza	ITALY	X		X
MISR INTERNATIONAL TOWERS CO.	NON-FINANCIAL	Cairo	EGYPT	X		X
MONTE MARIO 2000 S.r.l.	NON-FINANCIAL	Roma	ITALY	X		X
NEWCOCOT S.p.A.	NON-FINANCIAL	Cologno Monzese	ITALY	X		X
NH HOTELES S.A.	NON-FINANCIAL	Madrid	SPAIN	X		X
NH ITALIA S.r.l.	NON-FINANCIAL	Milano	ITALY	X		X
NOVERCA ITALIA S.R.L.	NON-FINANCIAL	Roma	ITALY	X		X
NOVERCA S.r.l.	NON-FINANCIAL	Roma	ITALY	X		X
NUOVO TRASPORTO VIAGGIATORI S.p.A.	NON-FINANCIAL	Roma	ITALY	X		X
OOO INTESA REALTY RUSSIA	NON-FINANCIAL	Mosca	RUSSIA	X		X
OTTOBRE 2008 S.r.l.	NON-FINANCIAL	Milano	ITALY	X		X
P.B. S.r.l. in liquidation	NON-FINANCIAL	Milano	ITALY	X		X
PHONIX BETEILIGUNGS GmbH - in liquidation	NON-FINANCIAL	Berlin	GERMANY	X		X
PIETRA S.r.l.	NON-FINANCIAL	Milano	ITALY	X		X
PIRELLI & C. S.p.A.	NON-FINANCIAL	Milano	ITALY	X		X
PROGEMA - PROMOZIONE GESTIONE MANAGEMENT s.r.l. in liquidation	NON-FINANCIAL	Torino	ITALY	X		X
R.C.N. FINANZIARIA S.p.A.	NON-FINANCIAL	Mantova	ITALY	X		X
RIZZOLI CORRIERE DELLA SERA MEDIAGROUP S.p.A.	NON-FINANCIAL	Milano	ITALY	X		X
SAGAT S.p.A.	NON-FINANCIAL	Caselle Torinese	ITALY	X		X
SHANGHAI SINO-ITALY BUSINESS ADVISORY COMPANY LIMITED	NON-FINANCIAL	Shanghai	CHINA	X		X
SIA - SSB S.p.A.	NON-FINANCIAL	Milano	ITALY	X		X
SOCIETA' GESTIONE PER IL REALIZZO In liquidation S.p.A.	NON-FINANCIAL	Roma	ITALY	X		X
SOLAR EXPRESS S.r.l.	NON-FINANCIAL	Firenze	ITALY	X		X
STUDI E RICERCHE PER IL MEZZOGIORNO	NON-FINANCIAL	Napoli	ITALY	X		X
TANGENZIALI ESTERNE DI MILANO S.p.A.	NON-FINANCIAL	Milano	ITALY	X		X
TELCO S.p.A.	NON-FINANCIAL	Milano	ITALY	X		X
TERMOMECCANICA S.p.A.	NON-FINANCIAL	La Spezia	ITALY	X		X
TLX S.p.A.	NON-FINANCIAL	Milano	ITALY	X		X
UNO A ERRE ITALIA S.p.A.	NON-FINANCIAL	Arezzo	ITALY	X		X
UPA SERVIZI S.p.A.	NON-FINANCIAL	Padova	ITALY	X		X

Reduction in individual capital requirements applied to the Parent Company and the Italian subsidiaries

With its Circular 263 of 27 December 2006 , the Bank of Italy established that “for Italian banks belonging to a banking group, the individual capital requirements for credit, counterparty, market and operational risks shall be reduced by 25 per cent, provided that regulatory capital at the consolidated level is at least equal to the total capital requirement”. As at 31 December 2008 the Intesa Sanpaolo Group met that requirement at consolidated level, and therefore benefited from this provision.

Quantitative disclosure

Name of subsidiaries not included in the consolidation

Entities consolidated in the financial statements and not included in the prudential scope of consolidation as at 31 December 2008

Name of banking subsidiary not included in the consolidation	Sector	Consolidation method	
		Consolidated line-by-line	Consolidated at equity
INSURANCE COMPANIES (*)			
EURIZONLIFE LTD	INSURANCE	X	
EURIZONTUTELA S.P.A.	INSURANCE	X	
VUB POIST'OVACI MAKLER S.R.O.	INSURANCE	X	
FINANCIAL COMPANIES			
ADRIANO FINANCE II S.R.L.	FINANCIAL	X	
ADRIANO FINANCE III S.R.L.	FINANCIAL	X	
ADRIANO FINANCE S.R.L.	FINANCIAL	X	
NON-FINANCIAL COMPANIES			
CIB CAR TRADING LIMITED LIABILITY COMPANY	NON-FINANCIAL	X	
CIB EXPERT LTD	NON-FINANCIAL	X	
CIB INVENTORY MANAGEMENT LIMITED LIABILITY COMPANY	NON-FINANCIAL	X	
CIL BAJOR CO. LTD	NON-FINANCIAL	X	
CIL DANUBIUS CO. LTD	NON-FINANCIAL	X	
CIL NAGYTETENY LTD	NON-FINANCIAL	X	
CIL VACI UT PROPERTY UTILISATION LIMITED LIABILITY COMPANY	NON-FINANCIAL	X	
CIL-FOOD 2006 LTD	NON-FINANCIAL	X	
MARGIT BUSINESS CENTER LIMITED LIABILITY COMPANY	NON-FINANCIAL	X	
OBUDA DUNAPART LTD	NON-FINANCIAL	X	
SANPAOLO IMI PRIVATE EQUITY SCHEME B.V. IN LIQUIDATION	NON-FINANCIAL		X
OTHER			
ARTEN SICAV	OTHER	X	
CANOVA SICAV	OTHER	X	
CIMABUE SICAV	OTHER	X	
DUOMO FUNDING PLC	OTHER	X	
FIDEURAM FUND BOND USD	OTHER	X	
FIDEURAM FUND BOND GLOBAL EMERGING MARKETS	OTHER	X	
FIDEURAM FUND BOND GLOBAL HIGH YIELD	OTHER	X	
FIDEURAM FUND EQUITY EUROPE	OTHER	X	
FIDEURAM FUND EQUITY GLOBAL EMERGING MARKETS	OTHER	X	
FIDEURAM FUND EQUITY ITALY	OTHER	X	
FIDEURAM FUND EQUITY JAPAN	OTHER	X	
FIDEURAM FUND EQUITY PACIFIC EX JAPAN	OTHER	X	
FIDEURAM FUND EQUITY USA	OTHER	X	
FIDEURAM FUND EQUITY USA GROWTH	OTHER	X	
FIDEURAM FUND EQUITY USA VALUE	OTHER	X	
FIDEURAM FUND EURO BOND LONG RISK	OTHER	X	
FIDEURAM FUND EURO BOND LOW RISK	OTHER	X	
FIDEURAM FUND EURO BOND MEDIUM RISK	OTHER	X	
FIDEURAM FUND EURO CORPORATE BOND	OTHER	X	
FIDEURAM FUND EURO DEFENSIVE BOND	OTHER	X	
FIDEURAM FUND EUROPE LISTED CONSUMER DISCRETIONARY EQUITY	OTHER	X	
FIDEURAM FUND EUROPE LISTED CONSUMER STAPLES EQUITY	OTHER	X	
FIDEURAM FUND EUROPE LISTED ENERGY MATERIALS UTILITIES EQUITY	OTHER	X	
FIDEURAM FUND EUROPE LISTED FINANCIALS EQUITY	OTHER	X	
FIDEURAM FUND EUROPE LISTED HEALTH CARE EQUITY	OTHER	X	
FIDEURAM FUND EUROPE LISTED INDUSTRIALS EQUITY	OTHER	X	
FIDEURAM FUND EUROPE LISTED T.T. EQUITY	OTHER	X	
FIDEURAM FUND INFLATION LINKED	OTHER	X	

Name of banking subsidiary not included in the consolidation	Sector	Consolidation method	
		Consolidated line-by-line	Consolidated at equity
FIDEURAM FUND ZERO COUPON 2009	OTHER	X	
FIDEURAM FUND ZERO COUPON 2010	OTHER	X	
FIDEURAM FUND ZERO COUPON 2011	OTHER	X	
FIDEURAM FUND ZERO COUPON 2012	OTHER	X	
FIDEURAM FUND ZERO COUPON 2013	OTHER	X	
FIDEURAM FUND ZERO COUPON 2014	OTHER	X	
FIDEURAM FUND ZERO COUPON 2015	OTHER	X	
FIDEURAM FUND ZERO COUPON 2016	OTHER	X	
FIDEURAM FUND ZERO COUPON 2017	OTHER	X	
FIDEURAM FUND ZERO COUPON 2018	OTHER	X	
FIDEURAM FUND ZERO COUPON 2019	OTHER	X	
FIDEURAM FUND ZERO COUPON 2020	OTHER	X	
FIDEURAM FUND ZERO COUPON 2021	OTHER	X	
FIDEURAM FUND ZERO COUPON 2022	OTHER	X	
FIDEURAM FUND ZERO COUPON 2023	OTHER	X	
FIDEURAM FUND ZERO COUPON 2024	OTHER	X	
FIDEURAM FUND ZERO COUPON 2025	OTHER	X	
FIDEURAM FUND ZERO COUPON 2026	OTHER	X	
FIDEURAM FUND ZERO COUPON 2027	OTHER	X	
FIDEURAM FUND ZERO COUPON 2028	OTHER	X	
FIDEURAM FUND ZERO COUPON 2029	OTHER	X	
FIDEURAM FUND ZERO COUPON 2030	OTHER	X	
FIDEURAM FUND ZERO COUPON 2031	OTHER	X	
FIDEURAM FUND ZERO COUPON 2032	OTHER	X	
FIDEURAM FUND ZERO COUPON 2033	OTHER	X	
FIDEURAM FUND ZERO COUPON 2034	OTHER	X	
FIDEURAM FUND ZERO COUPON 2035	OTHER	X	
FIDEURAM FUND ZERO COUPON 2036	OTHER	X	
FIDEURAM FUND ZERO COUPON 2037	OTHER	X	
FIDEURAM FUND ZERO COUPON 2038	OTHER	X	
FOCUS RENDIMENTO ASSOLUTO 5 ANNI	OTHER	X	
FONDO CARAVAGGIO	OTHER	X	
LEVANNA SICAV	OTHER	X	
ROMULUS FUNDING CORPORATION	OTHER	X	
SANPAOLO INTERNATIONAL FORMULAS FUND	OTHER	X	
SP LUX SICAV II	OTHER	X	
SPLIT 2	OTHER	X	
SPQR S.R.L.	OTHER	X	
TIEPOLO SICAV	OTHER	X	

(*) "Centrovita", "Sud Polo Vita" and "Eurizon Vita" insurance companies have already been included in " Entities deducted from capital"

Aggregate amount of the capital deficiencies of the subsidiaries not included in the scope of consolidation with respect to the mandatory capital requirements

As at 31 December 2008 there were no capital deficiencies of the subsidiaries not included in the scope of consolidation with respect to the mandatory capital requirements.

Table 3 – Regulatory capital structure

Qualitative disclosure

Summary information on the main terms and conditions of the features of capital items

Regulatory capital has been calculated on the basis of new instructions (Circular 263 of December 2006 and 12th update of Circular 155 of February 2008) issued by the Bank of Italy following the new prudential provisions for banks and banking groups introduced by the New Basel Capital Accord (Basel 2).
Regulatory capital is calculated as the sum of positive components, with certain limits, and negative components, on the basis of their capital quality; positive components, in order to be eligible for the calculation of capital absorptions, must be fully available for the Bank.
Regulatory capital is made up of Tier 1 capital and Tier 2 capital, adjusted by the "prudential filters" and net of certain deductions. In particular:
- Tier 1 capital includes paid-in share capital, reserves, innovative and non-innovative capital instruments, retained net income for the period; plus the positive Tier 1 "prudential filters". The total of these elements, net of treasury shares or quotas, intangible assets, losses recorded in previous years and in the current year, "other negative items", and the negative Tier 1 "prudential filters", make up the "Tier 1 capital before items to be deducted". The negative "prudential filters" include 50 per cent of the net income tax benefit recorded in the income statement as at 31 December 2008, relating to the tax exemption for the goodwill pursuant to Legislative Decree 185/2008 converted by Law 2/2009. The Tier 1 capital consists of the difference between the "Tier 1 capital before items to be deducted" and 50 per cent of "items to be deducted";
- Tier 2 capital includes valuation reserves, innovative and non-innovative capital instruments not included in Tier 1 capital, hybrid capital instruments, Tier 2 subordinated liabilities, unrealised capital gains on equity investments, excess value adjustments with respect to expected losses, and the other positive elements that constitute capital items of a secondary nature. The positive "prudential filters" of Tier 2 capital are also included. The total of these elements, less net unrealised capital losses on equity investments, negative items related to loans, other negative elements, and negative Tier 2 "prudential filters", makes up "Tier 2 capital before elements to be deducted". Tier 2 capital is made up of the difference between "Tier 2 capital before items to be deducted" and 50 per cent of "items to be deducted".
Each caption of Tier 1 and Tier 2 capital includes minority interests pertaining to the Banking group and to third parties.
The most significant prudential filters for the Intesa Sanpaolo Group are calculated applying the following provisions:

– for financial assets available for sale, relatively to equities, quotas of UCITS and debt securities, unrealised profits and losses are offset: the balance, if negative, reduces Tier 1 capital; if positive it contributes for 50% to Tier 2 capital. Furthermore, any unrealised profits and losses on loans classified among assets available for sale are excluded;
– for hedges, unrealised profits and losses on cash flow hedges, recorded in a specific reserve, are sterilised.

The "Tier 1 capital before items to be deducted" and "Tier 2 capital before items to be deducted" are deducted on a 50/50 basis, as set out above, the equity investments, the excess expected losses with respect to total adjustments of the corporate regulator in portfolio and the expected losses in relation to equities and – where they have the characteristics to be eligible for inclusion in the issuer's regulatory capital – the innovative and non-innovative capital instruments, hybrid capital instruments and subordinated instruments in banks, financial companies and insurance companies.
Concerning equity investments and subordinated instruments held in insurance companies, until 31 December 2012 they are entirely deducted from Total capital, instead of 50 per cent each from Tier 1 and Tier 2, if acquired before 20 July 2006.

The table below details the captions of the consolidated shareholders' equity that together with the capital components pertaining to third party shareholders (amounting to 1,100 million euro, of which 444 million relating to the share capital of subsidiaries of the banking group) contribute to the determination of the regulatory capital.

(in millions of euro)

	Amount
Share capital	**6,647**
Share premium reserve	**33,102**
Reserves	**8,075**
Legal reserve	*1,329*
Extraordinary reserve	*1,901*
Concentration reserve (as per Art. 7, par. 3 of Law 218 of 30/7/1990)	*232*
Concentration reserve (as per Art. 7 of Law 218 of 30/7/1990)	*302*
Consolidation reserve	*3,991*
Other reserves	*320*
Valuation reserves	**-1,412**
Legally-required revaluations	*343*
Valuation reserve from translation of financial statements in foreign currency	*-55*
Valuation reserve of financial assets available for sale	*-1,287*
Valuation reserve of cash flow hedges	*-413*
Treasury shares	**-11**
Net income	**2,553**
Total	**48,954**

The main features of the items listed above are summarised below.
The share capital of the Bank as at 31 December 2008 amounted to 6,647 million euro, divided into 11,849,332,367 ordinary shares and 932,490,561 non-convertible saving shares, with a nominal value of 0.52 euro each. Each ordinary share gives the right to one vote in the Shareholders' Meeting. Saving shares, which may be in bearer form, give the power to intervene and vote in the Special Meeting of saving shares holders. Saving shares must be attributed a preferred dividend up to 5% of the nominal value of the share. If in one year the dividend is less than 5% of the nominal value of the non-convertible saving shares, the difference will be added to the preferred dividend paid in the following two accounting periods. Furthermore, retained earnings made available for distribution by the Shareholders' Meeting, net of the above dividend, will be allocated to all shares so that the dividend per non-convertible saving share will be 2% of nominal value higher than for ordinary shares. In case of distribution of reserves the saving shares have the same rights as other shares. In the case of liquidation of the Company, saving shares shall have pre-emptive rights with regard to the reimbursement of the entire nominal value of the shares.
As at 31 December Intesa Sanpaolo shares were held by Banca IMI (for an exchange value of 2 million euro), in relation to its institutional trading activities, and by collective investment entities (for an exchange value of 9 million euro) owned by the Group's insurance companies and consolidated as provided for by IAS/IFRS. At the date of these financial statements share capital was fully paid-in and liberated.
Reserves amounted to 8,075 million euro and included: legal reserve, statutory or extraordinary reserve, concentration reserves (Law 218 of 30/7/1990, art. 7, par. 3, and Law 218 of 30/7/1990, par. 7), consolidation reserve and other reserves. The legal reserve, set up as provided for by the law, must be at least one fifth of share capital; it was set up in the past by allocating each year at least one twentieth of net income for the year. Should the reserve decrease, it must be reintegrated by allocating at least one twentieth of net income for the year. The statutory or extraordinary reserve was set up as provided for by the Articles of Association by the allocation of residual net income after dividend distribution to ordinary and saving shares. Such reserve also includes unclaimed and forfeited dividends, as provided for by the Articles of Association. Concentration reserves ex Law 218 of 30 July 1990 were set up at the time of reorganisations or concentrations carried out pursuant to the aforementioned law. Consolidation reserves were generated following the elimination of the book value of equity investments against the corresponding portion of the shareholders' equity of each investment.

Innovative instruments - contribution to Tier 1, Tier 2 and Tier 3 capital

The main contractual characteristics of innovative instruments which, together with share capital and reserves, are included in the calculation of Tier 1 and Tier 2 capital, are summarised in the following tables.

Tier 1 capital

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early reimburse-ment as of	Currency	Original amount in currency	Contribution to capital for supervisory purposes (in millions of euro)
SANPAOLO IMI Capital Company I	8.126%; from 10/11/2010 1-year Euribor + 3.5% p.a.	YES	10-Nov-2000	perpetual	10-Nov-2010	Euro	1,000,000,000	1,000
Intesa Preferred LLC III	6.988% fixed rate; from 12/07/2011 3-month Euribor +2.60%	YES	12-Jul-2001	perpetual	12-Jul-2011	Euro	500,000,000	498
Intesa Sanpaolo	8.047% up to 20/06/2018 (excluded); thereafter at 3-month Euribor + 4.10%	YES	20-Jun-2008	perpetual	20-Jun-2018	Euro	1,250,000,000	1,250
Intesa Sanpaolo	8.698% up to 24/9/2018 (excluded); thereafter at 3-month Euribor + 5.05%	YES	24-Sep-2008	perpetual	24-Sep-2018	Euro	250,000,000	250
Total preference shares and innovative equity instruments (Tier I)								**2,998**

Tier 2 capital

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early reimburse-ment as of	Currency	Original amount in currency	Contribution to capital for supervisory purposes (in millions of euro)
Intesa Sanpaolo	6.625% fixed rate	NO	8-May-2008	8-May-2018	NO	Euro	1,250,000,000	1,242
Intesa Sanpaolo	6.16% fixed rate	NO	27-Jun-2008	27-Jun-2018	NO	Euro	120,000,000	119
Banca CR Firenze	6-month Euribor + 1.40%	NO	19-Jun-2002	21-Jun-2012	NO	Euro	200,000,000	198
Banca CR Firenze	6-month Euribor + 0.95%	NO	5-Dec-2003	5-Dec-2013	NO	Euro	200,000,000	150
Centro Leasing Banca S.p.A.	3-month Euribor + 0.85%	NO	17-Jul-2007	17-Jul-2017	NO	Euro	30,000,000	25
Total hybrid instruments (Upper Tier II)								**1,734**
Banca di Trento e di Bolzano	1st year: 4%; 2nd year: 4.10%; thereafter 71% 10-year swap rate with minimum 3%	NO	4-Apr-2003	4-Apr-2010	NO	Euro	9,000,000	4
Banca di Trento e di Bolzano	1st year: 3.00%; 2nd year: 3.30%; 3rd year: 3.70%; 4th year: 4.10%; 5th year: 4.50%; 6th year: 5.10%; 7th year:5.70%	NO	4-Apr-2003	4-Apr-2010	NO	Euro	16,000,000	6
Cassa di Risparmio di Orvieto S.p.A.	6-month Euribor - 0.10%	NO	14-Jan-2005	14-Jan-2012	NO	Euro	17,000,000	14
Centro Leasing Banca S.p.A.	up to 27/9/2011 (excluded): 3-month Euribor + 0.65% p.a.; thereafter 3-month Euribor + 1.25% p.a.	YES	27-Sep-2006	27-Sep-2016	27-Sep-2011	Euro	90,000,000	68
Cassa di Risparmio della Spezia S.p.A.	for the first 5 years: 3-month Euribor + 0.10%; for the following 5 years: 3 month Euribor + 0.30%	YES	14-Dec-2007	14-Dec-2017	14-Dec-2012	Euro	30,000,000	30
Banca CR Firenze	6-month Euribor	NO	24-Jun-2002	22-Jul-2009	NO	Euro	50,000,000	10
Banca CR Firenze	6-month Euribor	NO	7-Jan-2003	3-Feb-2010	NO	Euro	30,000,000	12
Banca CR Firenze	3-month Euribor	NO	19-Jan-2004	18-Feb-2011	NO	Euro	23,000,000	14
Banca CR Firenze	6-month Euribor	NO	21-Jun-2004	28-Jul-2011	NO	Euro	40,000,000	24
Banca CR Firenze	3-month Euribor + 0.45%; as of 30/5/2010 3-month Euribor + 0.70%	YES	30-May-2005	30-May-2015	30-May-2010	Euro	16,200,000	16
Banca CR Firenze	6-month Euribor + 0.15%	NO	10-Apr-2006	22-May-2013	NO	Euro	85,000,000	12
Banca CR Firenze	6-month Euribor + 0.40%; as of 15/12/2009 3-month Euribor + 0.60%	YES	15-Dec-2004	15-Dec-2014	15-Dec-2009	Euro	150,000,000	145
Intesa Sanpaolo	8% for 1st coupon, 6.375% for 2nd and 3rd coupons, 13.8% thereafter less 2 times the 12-month Libor (max 5.3%-min 4.5%)	NO	16-Jun-1998	17-Jun-2013	NO	Lit	500,000,000,000	177
Intesa Sanpaolo	8% for 1st coupon, 6.375% for 2nd and 3rd coupons, 13.8% thereafter less 2 times the 12-month Libor (max 5.3%-min 4.5%)	NO	30-Jun-1998	1-Jul-2013	NO	Lit	200,000,000,000	73
Intesa Sanpaolo	8% 1st coupon, 5% 2nd coupon, 4% 3rd coupon, thereafter 70% of 10-year swap rate	NO	9-Mar-1999	9-Mar-2014	NO	Lit	480,000,000,000	208
Intesa Sanpaolo	8% 1st coupon, 5.5% 2nd coupon, 4% 3rd coupon, thereafter 65% of 10-year swap rate with minimum 4%	NO	15-Jul-1999	15-Jul-2014	NO	Euro	250,000,000	218
Intesa Sanpaolo	5.30% fixed rate	NO	22-Oct-1999	1-Jan-2010	NO	Euro	150,000,000	60
Intesa Sanpaolo	5.10% fixed rate	NO	17-Nov-1999	17-Nov-2009	17-Nov-2005	Euro	350,000,000	70
Intesa Sanpaolo	5.20% fixed rate	NO	7-Dec-1999	1-Jan-2010	NO	Euro	90,000,000	36
Intesa Sanpaolo	5.30% fixed rate	NO	21-Jan-2000	1-Jan-2010	NO	Euro	100,000,000	40
Intesa Sanpaolo	5.50% fixed rate	NO	16-Feb-2000	1-Jan-2010	NO	Euro	41,000,000	16
Intesa Sanpaolo	6.11% fixed rate; as of 23/2/2005 97% of 30-year euro swap mid rate	NO	23-Feb-2000	23-Feb-2015	NO	Euro	65,000,000	65
Intesa Sanpaolo	92% of 30-year Euro Swap mid rate: never less than that of previous coupon	NO	12-Mar-2001	23-Feb-2015	NO	Euro	50,000,000	50
Intesa Sanpaolo	5.35% fixed rate	NO	9-Apr-2001	9-Apr-2011	NO	Euro	125,478,000	75

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early reimburse-ment as of	Currency	Original amount in currency	Contribution to capital for supervisory purposes (in millions of euro)
Intesa Sanpaolo	5.20% fixed rate	NO	15-Jan-2002	15-Jan-2012	NO	Euro	265,771,000	213
Intesa Sanpaolo	5.50% fixed rate	NO	12-Apr-2002	12-Apr-2012	NO	Euro	126,413,000	100
Intesa Sanpaolo	5.85% fixed rate; as of 08/05/2009 3 month Euribor +1.25%	YES	8-May-2002	8-May-2014	8-May-2009	Euro	500,000,000	498
Intesa Sanpaolo	3-month Euribor + 0.25%	YES	8-Feb-2006	8-Feb-2016	8-Feb-2011	Euro	1,500,000,000	1,458
Intesa Sanpaolo	5.50% fixed rate; as of 19/12/2011 3 month GBP Libor + 0.99%	YES	19-Jul-2006	19-Dec-2016	19-Dec-2011	Lgs	1,000,000,000	1,046
Intesa Sanpaolo	6.375% fixed rate; as of 12/11/2012 3-month GBP Libor	YES	12-Oct-2007	12-Oct-2017	12-Oct-2012	Lgs	250,000,000	262
Intesa Sanpaolo	5.75% fixed rate	NO	15-Sep-1999	15-Sep-2009	NO	Euro	150,000,000	30
Intesa Sanpaolo	6.375% fixed rate	NO	6-Apr-2000	6-Apr-2010	NO	Euro	500,000,000	200
Intesa Sanpaolo	3.72% fixed rate, as of 3/8/2009 6-month Euribor +0.60% p.a.	YES	3-Aug-2004	3-Aug-2014	3-Aug-2009	Euro	133,793,000	126
Intesa Sanpaolo	2.90% fixed rate, as of 1/8/2010 6-month Euribor + 0.74% p.a.	YES	1-Aug-2005	1-Aug-2015	1-Aug-2010	Euro	20,000,000	19
Intesa Sanpaolo	5.375% fixed rate	NO	13-Dec-2002	13-Dec-2012	NO	Euro	30,000,000	239
Intesa Sanpaolo	up to 20/02/2013 (excluded): 3-month Euribor + 0.25% p.a.; thereafter 3-month Euribor +0.85% p.a.	YES	20-Feb-2006	20-Feb-2018	20-Feb-2013	Euro	750,000,000	749
Intesa Sanpaolo	up to 9/6/2010 (excluded): 3.75% p.a. thereafter: 3-month Euribor + 1.05% p.a.	YES	9-Jun-2003	9-Jun-2015	9-Jun-2010	Euro	350,000,000	348
Intesa Sanpaolo	up to 18/03/2019 (excluded): 5.625% p.a.; thereafter: 3-month Sterling LIBOR + 1.125% p.a.	YES	18-Mar-2004	18-Mar-2024	18-Mar-2019	Lgs	165,000,000	173
Intesa Sanpaolo	up to 28/06/2011 (excluded): 3-month Euribor + 0.30% p.a.; thereafter 3-month Euribor + 0.90% p.a.	YES	28-Jun-2004	28-Jun-2016	28-Jun-2011	Euro	700,000,000	698
Intesa Sanpaolo	up to 02/03/2015 (excluded): 3.75% p.a.; thereafter: 3-month Euribor +0.89% p.a.	YES	2-Mar-2005	2-Mar-2020	2-Mar-2015	Euro	500,000,000	496
Intesa Sanpaolo	up to 19/04/2011 (excluded): 3-month Euribor +0.20% p.a.; thereafter: 3-month Euribor +0.80% p.a.	YES	19-Apr-2006	19-Apr-2016	19-Apr-2011	Euro	500,000,000	485
Intesa Sanpaolo	up to 26/6/2013 (excluded): 4.375% p.a., thereafter: 3-month Euribor +1.00% p.a.	YES	26-Jun-2006	26-Jun-2018	26-Jun-2013	Euro	500,000,000	500
Banca Fideuram	6-month Euribor + 0.50% p.a.	NO	1-Oct-1999	1-Oct-2009	NO	Euro	200,000,000	40
Intesa Sanpaolo	5.87% fixed rate	NO	26-Nov-2008	26-Nov-2015	NO	Euro	415,000,000	415
Intesa Sanpaolo	6.25% fixed rate	NO	12-Nov-2008	12-Nov-2015	NO	Euro	545,000,000	544
Intesa Sanpaolo	6.16% fixed rate	NO	29-Oct-2008	29-Oct-2015	NO	Euro	382,000,000	382
Intesa Sanpaolo	4.80% fixed rate	NO	28-Mar-2008	28-Mar-2015	NO	Euro	800,000,000	799
Intesa Sanpaolo	4.00% fixed rate	NO	30-Sep-2008	30-Sep-2015	NO	Euro	1,097,000,000	1,026

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early reimbursement as of	Currency	Original amount in currency	Contribution to capital for supervisory purposes (in millions of euro)
Intesa Sanpaolo	5.75% fixed rate; as of 28/05/2013 3 month Euribor +1.98%	YES	28-May-2008	28-May-2018	28-May-2013	Euro	1,000,000,000	994
Findomestic Banca S.p.A.	up to 27/01/2011 (included): 3-month Euribor + 0.28% p.a.; thereafter 3-month Euribor +0.60% p.a.	YES	27-Jan-2006	27-Jan-2016	27-Jan-2011	Euro	150,000,000	69
Cassa dei Risparmi di Forlì e della Romagna	up to 10/6/2005 (included): 3-month Euribor + 0.40% p.a.; thereafter 3-month Euribor +1.00% p.a.	YES	10-Jun-2005	10-Jun-2015	10-Jun-2010	Euro	70,000,000	53
Pravex Bank	7.025% (Libor + 5%)	NO	other issues placed as of 12/09/2000	other issues with final expiry at 31/07/2016	NO	Usd	11,100,000	10
Total eligible subordinated liabilities (Lower Tier II)								**13,415**

Tier 3 capital

Subordinated debts have been issued which are eligible to be considered in Tier 3 Capital, net of intragroup transactions to "cover" market risks as illustrated below.

Issuer	Interest rate	Step-up	Issue date	Expiry date	Early reimbursement as of	Currency	Original amount in currency	Contribution to capital for supervisory purposes (in millions of euro)
Banca CR Firenze	3-month Euribor + 0.25%	NO	21-Dec-2006	21-Dec-2009	NO	Eur	60,000,000	30
Total Tier III subordinated liabilities								**30**
Total preference shares, innovative equity instruments and eligible subordinated								**18,177**

Quantitative disclosure

Regulatory capital structure

The structure of the regulatory capital of the Intesa Sanpaolo Group as at 31 December 2008 is summarised in the table below:

(in millions of euro)

	Amount
A. Tier 1 capital before the application of prudential filters	**29,352**
B. Tier 1 capital prudential filters	**-1,639**
B.1 Positive IAS/IFRS prudential filters (+)	-
B.2 Negative IAS/IFRS prudential filters (-)	-1,639
C. Tier 1 before items to be deducted (A+B)	**27,713**
D. Items to be deducted from Tier 1	**639**
E. Total Tier 1 capital (C-D)	**27,074**
F. Tier 2 capital before the application of prudential filters	**15,387**
G. Tier 2 capital prudential filters	**-**
G.1 Positive IAS/IFRS prudential filters (+)	-
G.2 Negative IAS/IFRS prudential filters (-)	-
H. Tier 2 before items to be deducted (F+G)	**15,387**
I. Items to be deducted from Tier 2	**639**
L. Total Tier 2 capital (H-I)	**14,748**
M. Items to be deducted from total Tier 1 and Tier 2 capital	**2,774**
N. Regulatory capital (E+L-M)	**39,048**
O. Tier 3 capital	**30**
P. Regulatory capital including Tier 3 (N+O)	**39,078**

More details of the breakdown of the individual components of the regulatory capital are provided below.

Tier 1 capital

(in millions of euro)

Information	Amount
TOTAL TIER 1 CAPITAL(*)	
Breakdown of positive items	
- Share capital	7,091
- Share premium reserve	33,229
- Reserves	8,432
- Non-innovative equity instruments	-
- Innovative equity instruments	2,998
- Net income for the period	2,565
- Positive IAS/IFRS prudential filters (+)	
Fair value option: changes in bank's own creditworthiness	-
Reimbursable shares	-
Capital resources forming the object of forward purchase commitments included in tier 1 capital	-
Other positive prudential filters	-
TOTAL POSITIVE ITEMS	**54,315**
Breakdown of negative items	
- Own shares or quotas	-2
- Goodwill	-20,027
- Other intangible assets	-4,934
- Loss for the period	-
- Adjustments to loans	-
- Adjustments calculated on the regulatory trading book	-
- Other	-
- Negative IAS/IFRS prudential filters (-)	
Fair value option: changes in bank's own creditworthiness	-110
Negative reserves on equities and quotas of UCITS available for sale	-120
Negative reserves on debt securities available for sale	-855
Net accumulated capital gain on tangible assets	-
Capital resources forming the object of forward purchase commitments included in tier 1 capital	-
Other negative prudential filters	-554
TOTAL NEGATIVE ITEMS	**-26,602**
TOTAL TIER 1 CAPITAL BEFORE ITEMS TO BE DEDUCTED	**27,713**
TOTAL ITEMS TO BE DEDUCTED	**-639**
TOTAL TIER 1 NET OF ITEMS TO BE DEDUCTED	**27,074**

(*) The individual components of the regulatory capital include both the portion relating to the capital of the Group and of the third party shareholders. Specifically, the net income for the period also includes the component pertaining to the third party shareholders of 129 million euro and the deductions for the distribution of dividends to the saving shareholders of the Parent Company of 24 million euro and for the other dividends to the third party shareholders of companies not fully controlled of 93 million euro.

The Total of the elements to be deducted includes 126 million euro for the excess expected losses with respect to total adjustments (50% of total excess of 252 million euro), as required by the regulations when the IRB models are adopted.

Tier 2 capital

(in millions of euro)

Information	Amount
TIER 2 CAPITAL (*)	
- Valuation reserves - Tangible assets	
Legally-required revaluations	*352*
Property and equipment used in operations	-
- Valuation reserve - Securities available for sale	
Equities and quotas of UCITS	-
Debt securities	-
- Non-innovative equity instruments not included in tier 1 capital	-
- Innovative equity instruments not included in tier 1 capital	-
- Hybrid capital instruments	1,734
- Tier 2 subordinated liabilities	13,415
- Positive IAS/IFRS prudential filters (+)	
Excess total adjustments with respect to expected losses	-
Net capital gains on equity investments	-
Other positive filters	-
TOTAL POSITIVE ITEMS	**15,501**
- Net capital losses on equity investments	-45
- Loans	-
- Other negative items	-69
- Negative IAS/IFRS prudential filters (-)	
Portion not included of the valuation reserve on property and equipment used in operations	-
Portion not included of positive reserves on securities available for sale - Equities and quotas of UCITS	-
Portion not included of positive reserves on securities available for sale - Debt securities	-
Tier 2 subordinated liabilities and hybrid capital instruments forming the object of forward purchase commitments not included in tier 2 capital	-
Other negative filters	-
TOTAL NEGATIVE ITEMS	**-114**
TOTAL TIER 2 CAPITAL BEFORE ITEMS TO BE DEDUCTED	**15,387**
TOTAL ITEMS TO BE DEDUCTED	**-639**
TOTAL TIER 2 CAPITAL NET OF ITEMS TO BE DEDUCTED	**14,748**

(*) The individual components of the regulatory capital include both the portion relating to the capital of the Group and of the third party shareholders.

The Total of the elements to be deducted includes 126 million euro for the excess expected losses with respect to total adjustments (50% of total excess of 252 million euro), as required by the regulations when the IRB models are adopted.

Tier 3 capital

(in millions of euro)

Information	Amount
TIER 3 CAPITAL	**30**
TOTAL POSITIVE ITEMS	**30**
- Tier 2 subordinated liabilities not included in tier 2 capital	-
- Tier 3 subordinated liabilities	30
TOTAL NEGATIVE ITEMS	-
- Prudential filters: deductions from tier 3 capital	
- Tier 2 and 3 subordinated liabilities forming the object of forward purchase commitments not included in tier 3 capital	-
- Other deductions	-

Table 4 – Capital adequacy

Qualitative disclosure

Assessment of the adequacy of the Bank's internal capital

The management of capital adequacy consists of a series of policies that determine the size and optimal combination of the various capitalisation instruments, in order to ensure that the levels of capital of the Group and its banking subsidiaries are consistent with the risk profile assumed and meet the supervisory requirements.

The concept of capital at risk differs according to the basis for its measurement, and different target levels of capitalisation are established:
– Regulatory Capital for Pillar 1 risks;
– overall Economic Capital for Pillar 2 risks, for the ICAAP process.

The regulatory capital and the overall Economic Capital differ by definition and in terms of the coverage of the risk categories. The former derives from the formats laid down by the supervisory provisions and the latter from the identification of the significant risks for the Intesa Sanpaolo Group and the consequent measurement in relation to the exposure assumed.

Capital Management essentially involves the control of capital soundness through the careful monitoring of both the regulatory constraints (Basel 2 Pillar 1) and current and prospective operational constraints (Pillar 2) in order to anticipate any critical situations within a reasonable period of time and identify possible corrective actions for the generation or recovery of capital.

The processes of assessment of capital adequacy are therefore based on a "twin track" approach: regulatory capital for the purposes of compliance with the Pillar 1 requirements and overall Economic Capital for the purposes of the ICAAP process.

The Intesa Sanpaolo Group assigns a primary role to the management and allocation of capital resources, also for the management of its operations. In this regard, the allocation of capital to the Business Units is established on the basis of their specific capacity to contribute to the creation of value, taking into account the level of return expected by the shareholders. To this end, internal systems are used to measure performance (EVA) on the basis of both the regulatory capital and the economic capital, in accordance with the criteria of the "use test" established by the supervisory provisions.

Verification of compliance with supervisory requirements and consequent capital adequacy is continuous and depends upon the objectives set out in the Business Plan.

The first verification occurs in the process of assignment of budget objectives: based on the growth trends expected for loans, other assets and income statement aggregates, the risks are quantified and their compatibility with compulsory capital ratios for individual banks and for the Group as a whole is assessed.

Compliance with capital adequacy is obtained via various levers, such as pay-out policy, definition of strategic finance operations (capital increases, issue of convertible bonds and subordinated bonds, disposal of non-core assets, etc.) and the management of loan policy on the basis of counterparty risk.

This dynamic management approach is aimed at identifying the risk capital raising instruments and hybrid capital instruments most suitable to the achievement of the objectives.

Compliance with the target levels of capitalisation is monitored during the year and on a quarterly basis, taking appropriate actions, where necessary, for the management and control of the balance sheets aggregates.

A further step in the preventive analysis and control of the Group’s capital adequacy takes place whenever extraordinary operations (such as acquisitions, disposals, joint ventures etc.) are resolved upon. In this case, on the basis of the information on the operation to be conducted, its impact on capital ratios is estimated and any necessary actions to ensure compliance with the requirement set forth by Supervisory Authorities are planned.

The Intesa Sanpaolo Group attaches great importance to risk management and control as conditions for:
- guaranteeing that the Group structure is consistent with the risk tolerances of the various stakeholders, by combining sustainable value creation with a level of risk considered to be acceptable;
- ensuring the Group's capital and financial adequacy, to effectively safeguard business continuity and the public and social objectives of financial stability of intermediaries;
- enabling the transparent representation of the risk profile of its portfolios.

The economic capital, defined as the maximum “unexpected” loss that the Group may incur over a period of one year, is a key measure for determining the Group’s financial structure and guiding its operations, ensuring the balance between risks assumed and shareholder return.

Consequently, when determining the risk tolerance considered to be acceptable, the Group’s objective is to ensure that its liabilities are covered over a period of 12 months with a 99.96% confidence level (in line with the solvency targets for entities with an agency rating of AA-).

With regard to the objectives of financial stability, the Group’s aim is to ensure that risk is covered with a 99.9% confidence level, even under conditions of stress.

The Group sets out these general principles in policies, limits and criteria applied to the various risk categories and business areas with specific risk tolerance sub-thresholds, in an intricate framework of governance, control limits and procedures.

The risks identified, covered and incorporated within the economic capital, considering the benefits of diversification, are as follows:

- credit risk. This category also includes concentration risk, country risk and residual risks, both from securitisations and uncertainty on credit recovery rates;
- market risk (trading book), including position, settlement and concentration risk on the trading book;
- operational risk, including legal risk;
- financial risk of the banking book, mainly represented by:
  - interest rate and foreign exchange rate risk;
  - risk on equity investments not subject to line by line consolidation;
  - risk on real estate assets owned for whichever purpose;
- insurance risk;
- strategic risk;
- reputation risk;
- liquidity risk.

The level of absorption of economic capital is estimated on the basis of the current situation and also at a forecast level, based on the Budget assumptions and the projected economic scenario under ordinary and stress conditions. The capital position forms the basis for the business reporting and is submitted quarterly to the Group Risk Governance Committee, the Management Board and the Control Committee, as part of the Group’s Risks Tableau de Bord.

In accordance with the regulatory provisions established by the new rules on capital adequacy, the Group has completed the actions aimed at meeting the requirements laid down by the Second Pillar of Circular 263, by preparing and sending the Simplified ICAAP Report to the Supervisory Authority - on approval by the Corporate Bodies – with the figures as at 30 June on a consolidated basis.

The Group has also substantially completed the ICAAP Report on the figures as at 31 December 2008 and the forecasts as at 31 December 2009, and the final document is due to be sent to the Bank of Italy by 30 April 2009. The results of the ICAAP process have confirmed the soundness of the Group's capital base and that the available financial resources are capable of guaranteeing the coverage, with sufficient margins, of all the current and prospective risks, even under conditions of stress.

Quantitative disclosure

Capital requirements and capital ratios of the Intesa Sanpaolo Group

2008 saw the entry into force of the "New provisions for the prudential supervision of banks" (Bank of Italy Circular 263 of 27 December 2006) that adopt the provisions on the International convergence of capital measurement and capital standards (Basel 2). Within this framework, the Banking Group's capital must represent at least 8% of the total of the weighted assets (total capital ratio) deriving from the typical risks of the banking and financial business (credit, counterparty, market and operational risks), weighted on the basis of the regulatory segmentation of the borrowing counterparties and taking into account the credit risk mitigation techniques.

Banks must comply with capital requirements for market risks calculated on the whole trading book separately for the various types of risk: position risk on debt securities and equities, settlement risk, and concentration risk. Moreover, with reference to the entire financial statements, foreign exchange risk and position risk on commodities must be calculated. The use of internal models to calculate the capital requirement for market risks is permitted; in particular, Intesa Sanpaolo and Banca IMI apply the internal model to calculate general position risk (price fluctuation risk) and specific risk (issuer risk) for equities, and general position risk for debt securities. Intesa Sanpaolo's internal model also includes the calculation of the specific risk for certain types of credit derivatives in the trading book, whereas for Banca IMI's model includes the position risk on quotas of UCITS (for the CPPI component). Standard methods are used for the other types of risk. Counterparty risk is calculated independently of the portfolio of allocation.

The group-level capital requirement is calculated as the sum of the individual requirements of the single companies that make up the Banking group, net of exposures arising from intragroup relations included in the calculation of credit, counterparty and settlement risk.

In addition to the Total capital ratio referred to above, other more rigorous ratios are also used to assess capital base soundness: the Tier 1 capital ratio, represented by the ratio between Tier 1 capital and risk-weighted assets, and the Core Tier 1 capital ratio, represented by the ratio between Tier 1 capital (net of preference shares) and risk-weighted assets.

As already mentioned, having obtained the authorisation from the Supervisory Authority, the Intesa Sanpaolo Group has adopted the Foundation Internal Rating Based (FIRB) approach to calculate its credit risk capital requirements with reference to the regulatory trading book "Exposures to corporates", with effect from 31 December 2008. The initial scope of application of the FIRB approach includes the Parent Company, the network banks (with the exception of CR Firenze and its subsidiaries, including the Savings Banks under the control of Casse del Centro) and the main specialised lending companies. The complete list of the companies included in the initial scope is provided in Table 7.

If the standardised approach had been used the capital ratios would have been 6.1% (Core tier 1 ratio), 6.9 % (Tier 1 ratio), and 10.0 % (Total capital ratio).

(in millions of euro)

	Unweighted amounts	Weighted amounts	Requirements
A. CAPITAL REQUIREMENTS			
A.1 Credit and counterparty risks	**582,919**	**335,556**	**26,844**
1. Standard methodology	387,507	194,458	15,557
2. Internal models (IRB)	187,208	138,199	11,055
3. Securitisations	8,204	2,899	232
A.2 Market risk			**1,444**
1. Standard methodology			1,243
2. Internal models			198
3. concentration risk			3
A.3 Operational risk			**2,327**
1. Basic indicator approach			70
2. Standardised approach			2,257
3. Advanced approach			-
A.4 Other capital requirements			**31**
A.5 Total capital requirements			**30,646**
B. CAPITAL RATIOS (%)			
B.1 Core Tier 1			**6.3**
B.2 Tier 1 ratio			**7.1**
B.3 Total capital ratio			**10.2**

As at 31 December 2007 these ratios determined on the basis of the previous method (Basel 1) were respectively: Core Tier 1 ratio 5.9%, Tier 1 ratio 6.5%, and Total capital ratio 9.0%.

The tables below provide details of the Group's different capital requirements as at 31 December 2008.

Capital requirement for Credit Risk (Standardised Approach)

(in millions of euro)

Regulatory portfolio	Capital requirement
Exposures to or secured by governments and central banks	*77*
Exposures to or secured by local authorities	*246*
Exposures to or secured by not for profit and public sector organisations	*201*
Exposures to or secured by multilateral development banks	-
Exposures to or secured by international organisations	-
Exposures to or secured by supervised institutions	*1,465*
Exposures to or secured by corporates	*5,795*
Retail exposures	*3,581*
Exposures secured by real estate property	*2,355*
Past due exposures	*577*
High-risk exposures	*71*
Exposures in the form of guaranteed bank bonds (covered bonds)	-
Short-term exposures to corporates	*133*
Exposures to UCITS	*94*
Other exposures	*962*
Securitised exposures	*232*
Total Capital requirement for Credit Risk (Standardised Approach)	**15,789**

Capital requirement for Credit Risk (IRB Approach)

(in millions of euro)

Regulatory portfolio	Capital requirement
Exposures to or secured by corporates	*11,003*
Specialised lending	*253*
Specialised lending - slotting criteria	*120*
SMEs	*3,457*
Other corporates	*7,173*
Equities (simple risk weight approach)	*52*
Exchange-traded exposures	*7*
Private equity exposures	*14*
Other	*31*
Exposures subject to supervisory transition regarding capital requirements	-
Total Capital requirement for Credit Risk (IRB Approach)	**11,055**

The equity exposures, for the companies that have adopted the IRB approach for the corporate regulatory trading book, subject to grandfathering provisions regarding capital requirements, have a capital requirement of 181 million euro.

Capital requirement for Market Risk

(in millions of euro)

	Capital requirement
Assets included in the regulatory trading book	**1,350**
Position risk	*1,347*
Settlement risk for DVP transactions (Delivery Versus Payment)	-
Concentration risk	*3*
Other assets	**94**
Foreign exchange risk	*48*
Commodity risk	*46*
Total Capital requirement for Market Risk	**1,444**

The capital requirement for "counterparty risk" for the regulatory trading book is 535 million euro. This requirement is shown - for the individual regulatory trading books - in the tables of capital requirements for credit risk under the standardised approach and the IRB approach.

Capital requirement for Operational Risk

(in millions of euro)

	Capital requirement
Operational risk capital requirement	
Basic indicator approach	70
Standardised approach	2,257
Total Operational risk capital requirement	**2,327**

Table 5 – Credit risk: general disclosures for all banks

Qualitative disclosure

Definitions of "non-performing" loans and "past due" loans

For the Intesa Sanpaolo Group the definitions of the various categories of "non-performing" loans (due and/or past due, substandard, restructured and doubtful exposures) correspond to the Regulatory definitions adopted by the Bank of Italy. The Regulatory instructions are supplemented by internal provisions that establish the criteria and automatic rules for the transfer of loans between the different risk categories. In brief:

Doubtful loans

On- and off-balance sheet exposures to borrowers in a state of insolvency (even when not recognised in a court of law) or in an essentially similar situation, regardless of any loss forecasts made by the bank; irrespective, therefore, of whether any (secured or personal) guarantees have been established to cover the exposures.
Also included are exposures to Italian local authorities (municipal and provincial) in a state of financial distress for the amount subject to the associated liquidation procedure.

Substandard loans

On- and off-balance sheet exposures to borrowers in a temporary situation of objective difficulty, which may be expected to be remedied within a reasonable period of time; irrespective of whether any (secured or personal) guarantees have been established to cover the exposures.
Substandard loans should include exposures to issuers who have not regularly honoured their repayment obligations (in terms of capital or interest) relating to quoted debt securities, unless they meet the conditions for classification as doubtful loans. To this end, the "grace period" established by the contract is recognised or, in its absence, the period recognised by the market listing the security.

Restructured exposures

On- and off-balance sheet exposures for which a bank (or a pool of banks), as a result of the deterioration of the borrower's financial situation, agrees to amendments to the original terms and conditions (for example, rescheduling of deadlines, reduction of the debt and/or the interest) that give rise to a loss. These do not include exposures to corporates where the termination of the business is expected (for example in cases of voluntary liquidation or similar situations).
The requirements relating to the "deterioration in the borrower's financial situation" and the presence of a "loss" are assumed to be met when the restructuring involves exposures already classified under the classes of substandard positions or due/past due exposures.
If the restructuring relates to exposures to borrowers classified as "performing" or to unimpaired due/past due exposures, the requirement relating to the "deterioration in the borrower's financial situation" is assumed to be met when the restructuring involves a pool of banks.

Due and/or past exposures

On- and off-balance sheet exposures, other than those classified as doubtful, substandard or restructured exposures that, as at the reporting date, are due or past due by more than 180 days on a continuous basis. For certain types of exposure (essentially banks and central governments and non-resident customers) the Regulatory provisions have set a period of 90 days instead of 180 days.

In addition to the types of non-performing exposures referred to above, the Intesa Sanpaolo Group also monitors and periodically reports its past due loans over 90 days to the Bank of Italy (still included under performing loans), defined as due and/or past due exposures over 90 days not already classified under one of the classes of non-performing loans.

Description of the methods adopted to calculate the adjustments

At every balance sheet date the financial assets, including loans, not classified under Financial assets held for trading or Financial assets designated at fair value through profit and loss are subjected to an impairment test to assess whether there is objective evidence to consider that the carrying value of these assets is not fully recoverable.

A permanent loss occurs if there is objective evidence of a reduction in future cash flows with respect to those originally estimated, following specific events; the loss must be quantified in a reliable way and must be incurred and not merely expected.

The measurement of impairment is carried out on an individual basis for financial assets that have specific evidence of losses, and collectively for financial assets for which individual measurement is not required.

With reference to loans to customers and due from banks, positions attributed the status of doubtful, substandard, restructured or past due according to the definitions of the Bank of Italy, consistent with IAS/IFRS, are subject to individual measurement.

Such non-performing loans undergo an individual measurement process and the amount of the adjustment of each loan is the difference between its carrying value at the time of measurement (amortised cost) and the present value of expected future cash flows, discounted using the original effective interest rate.

Expected cash flows consider expected recovery periods, presumed realisable value of guarantees as well as the costs sustained for the recovery of credit exposure. Cash flows related to loans which are deemed to be recovered in the short term are not discounted, since the time value is immaterial.

Loans for which no objective evidence of loss has emerged from individual measurement are subject to collective measurement. Collective measurement occurs for homogeneous loan categories in terms of credit risk and the relative loss percentages are estimated considering past time-series, founded on observable elements at measurement date, that enable to estimate the value of the latent loss in each loan category.

The determination of provisions on performing loans is carried out by identifying the highest possible synergies (as permitted by the various legislations) with the supervisory approach contained in the "New capital accord" generally known as Basel 2. In particular, the parameters of the calculation model set out in the new supervisory provisions, namely, Probability of Default (PD) and Loss Given Default (LGD), are used – where already available – also for the purposes of financial statement valuation.

The expected loss, represented by the product of the two abovementioned indicators, is aggregated into pools on the basis of predefined criteria (reporting company, economic segment, and geographical location) and converted into incurred loss by applying factors that capture the loss confirmation period "LCP", the economic cycle and the concentration of the portfolio:

– the "LCP" is a factor representing the period between the occurrence of the event that generates the default and the manifestation of the signal of default, and it enables the conversion of the loss from "expected" to "incurred"; The period of a year used for the determination of the probability of default is considered suitable to approximate the notion of incurred loss, that is, the loss based on current events but not yet included by the entity in the review of the risk of the specific customer, set forth by international accounting principles. This period is reduced to six months solely for counterparties that are natural persons for whom the recognition of a worsening credit situation and the consequent transfer among the non-performing loans generally take place following unpaid instalments or continuous defaults for more than 180 days;the cyclicality is an adjustment coefficient, estimated on the basis of the economic cycle, which is required because the ratings are calibrated on the average long term forecast and only partially reflect the current conditions;
– the concentration is a prudential correction factor linked to the concentration of the portfolio and is applied to the major groups;

In addition to the cash loans to customers that are subjected to this analysis, the above calculation of incurred loss is also performed on the commitments from customers, whereas for exposures to banks (cash and unsecured) only the expected loss is considered.

The method described above is applied to a scope of companies, representing over 80% of the Group's loans to customers, consisting of the following banks: Intesa Sanpaolo, Banco di Napoli, Cassa di Risparmio in Bologna, Cassa di Risparmio del Veneto, Cassa di Risparmio del Friuli Venezia Giulia, Cassa di Risparmio di Venezia, Cassa dei Risparmi di Forlì e della Romagna, Banca dell'Adriatico, Banca di Trento e Bolzano, Banca CIS (now Banca di Credito Sardo), Banca Prossima, Banca Infrastrutture Innovazione e Sviluppo, Leasint, Mediocredito Italiano, Mediofactoring, Intesa Sanpaolo Bank Ireland, Intesa Sanpaolo Private

Banking, Neos, and Banca IMI (Project Finance). The other Banks, pending the adoption of the model described above, use simplified methods based on historical loss data.

Quantitative disclosure

Overall credit exposure by risk class (*)

(in millions of euro)

IAS portfolios/category	Doubtful loans			Substandard loans			Restructured exposures		
	Gross	Net	Gross Average	Gross	Net	Gross Average	Gross	Net	Gross Average
1. Financial assets held for trading	1	1	1	14	14	14	-	-	-
2. Financial assets available for sale	5	5	6	-	-	-	-	-	-
3. Investments held to maturity	-	-	-	1	1	1	-	-	-
4. Due from banks	11	1	9	90	27	45	-	-	-
5. Loans to customers	13,188	3,968	12,028	7,027	5,286	6,125	534	399	407
6. Financial assets designated at fair value through profit and loss	-	-	-	-	-	-	-	-	-
7. Financial assets under disposal	16	8	16	22	19	58	-	-	-
8. Hedging derivatives	-	-	-	-	-	-	-	-	-
TOTAL	**13,221**	**3,983**	**12,060**	**7,154**	**5,347**	**6,243**	**534**	**399**	**407**

(in millions of euro)

IAS portfolios/category	Past due exposures			Other exposures			Total		
	Gross	Net	Gross Average	Gross	Net	Gross Average	Gross	Net	Gross Average
1. Financial assets held for trading	14	6	15	60,935	60,935	55,841	60,964	60,956	55,871
2. Financial assets available for sale	-	-	-	13,795	13,782	13,799	13,800	13,787	13,805
3. Investments held to maturity	-	-	-	5,589	5,589	5,705	5,590	5,590	5,706
4. Due from banks	5	4	6	55,091	55,046	61,055	55,197	55,078	61,115
5. Loans to customers	2,028	1,868	1,692	392,218	389,696	359,982	414,995	401,217	380,234
6. Financial assets designated at fair value through profit and loss	-	-	-	1,333	1,333	1,077	1,333	1,333	1,077
7. Financial assets under disposal	6	6	13	937	932	2,479	981	965	2,566
8. Hedging derivatives	-	-	-	5,388	5,388	4,594	5,388	5,388	4,594
TOTAL	**2,053**	**1,884**	**1,726**	**535,286**	**532,701**	**504,532**	**558,248**	**544,314**	**524,968**

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application).

Credit exposures by geographical area to customers and banks

Credit exposures by geographical area – customers as at 31 December 2008 (*)

(in millions of euro)

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD		TOTAL	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. ON-BALANCE SHEET EXPOSURES												
A.1. Doubtful loans	11,677	3,719	1,094	209	98	21	42	9	295	23	13,206	3,981
A.2. Substandard loans	6,065	4,613	861	629	63	28	10	-	52	36	7,051	5,306
A.3. Restructured exposures	494	363	38	35	-	-	2	1	-	-	534	399
A.4. Past due exposures	2,012	1,855	24	16	3	3	1	1	-	-	2,040	1,875
A.5. Other exposures	341,205	339,188	63,567	63,123	8,973	8,954	4,539	4,529	6,302	6,251	424,586	422,045
Total A	**361,453**	**349,738**	**65,584**	**64,012**	**9,137**	**9,006**	**4,594**	**4,540**	**6,649**	**6,310**	**447,417**	**433,606**
B. OFF-BALANCE SHEET EXPOSURES												
B.1. Doubtful loans	176	125	13	8	-	-	-	-	29	-	218	133
B.2. Substandard loans	378	323	54	52	1	1	-	-	2	2	435	378
B.3. Other non-performing assets	110	94	-	-	-	-	3	3	-	-	113	97
B.5. Other exposures	65,729	65,575	45,809	45,687	22,260	22,252	1,226	1,224	728	722	135,752	135,460
Total B	**66,393**	**66,117**	**45,876**	**45,747**	**22,261**	**22,253**	**1,229**	**1,227**	**759**	**724**	**136,518**	**136,068**
TOTAL (A+B)	**427,846**	**415,855**	**111,460**	**109,759**	**31,398**	**31,259**	**5,823**	**5,767**	**7,408**	**7,034**	**583,935**	**569,674**

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application).

Credit exposures by geographical area – banks as at 31 December 2008 (*)

(in millions of euro)

Exposures/Geographical areas	ITALY		OTHER EUROPEAN COUNTRIES		AMERICA		ASIA		REST OF THE WORLD		TOTAL	
	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure	Gross exposure	Net exposure
A. ON-BALANCE SHEET EXPOSURES												
A.1. Doubtful loans	1	-	6	-	8	2	-	-	-	-	15	2
A.2. Substandard loans	-	-	90	27	-	-	-	-	-	-	90	27
A.3. Restructured exposures	-	-	-	-	-	-	-	-	-	-	-	-
A.4. Past due exposures	-	-	4	4	-	-	-	-	-	-	4	4
A.5. Other exposures	16,053	16,051	38,393	38,360	3,113	3,111	2,779	2,774	2,573	2,571	62,911	62,867
Total A	**16,054**	**16,051**	**38,493**	**38,391**	**3,121**	**3,113**	**2,779**	**2,774**	**2,573**	**2,571**	**63,020**	**62,900**
B. OFF-BALANCE SHEET EXPOSURES												
B.1. Doubtful loans	-	-	-	-	-	-	-	-	-	-	-	-
B.2. Substandard loans	-	-	-	-	1	1	-	-	-	-	1	1
B.3. Other non-performing assets	-	-	4	4	-	-	-	-	-	-	4	4
B.5. Other exposures	14,173	14,173	30,122	30,117	1,585	1,584	1,940	1,934	284	283	48,104	48,091
Total B	**14,173**	**14,173**	**30,126**	**30,121**	**1,586**	**1,585**	**1,940**	**1,934**	**284**	**283**	**48,109**	**48,096**
TOTAL (A+B)	**30,227**	**30,224**	**68,619**	**68,512**	**4,707**	**4,698**	**4,719**	**4,708**	**2,857**	**2,854**	**111,129**	**110,996**

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application).

Credit exposures and adjustments by counterparty (*)

(in millions of euro)

	GOVERNMENTS AND CENTRAL BANKS				OTHER PUBLIC ENTITIES			
	Gross exposure	Individual adjustments	Collective adjustments	Net exposure	Gross exposure	Individual adjustments	Collective adjustments	Net exposure
A. ON-BALANCE SHEET EXPOSURES								
A.1. Doubtful loans	4	2	-	2	2	1	-	1
A.2. Substandard loans	-	-	-	-	76	6	-	70
A.3. Restructured exposures	-	-	-	-	-	-	-	-
A.4. Past due exposures	11	-	-	11	556	12	-	544
A.5. Other exposures	22,598	-	6	22,592	22,111	-	50	22,061
Total A	**22,613**	**2**	**6**	**22,605**	**22,745**	**19**	**50**	**22,676**
B. OFF-BALANCE SHEET EXPOSURES								
B.1. Doubtful loans	-	-	-	-	-	-	-	-
B.2. Substandard loans	-	-	-	-	-	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-	-	-
B.5. Other exposures	3,529	-	1	3,528	3,773	-	2	3,771
Total B	**3,529**	**-**	**1**	**3,528**	**3,773**	**-**	**2**	**3,771**
TOTAL (A+B)	**26,142**	**2**	**7**	**26,133**	**26,518**	**19**	**52**	**26,447**

(in millions of euro)

	FINANCIAL INSTITUTIONS				INSURANCE COMPANIES			
	Gross exposure	Individual adjustments	Collective adjustments	Net exposure	Gross exposure	Individual adjustments	Collective adjustments	Net exposure
A. ON-BALANCE SHEET EXPOSURES								
A.1. Doubtful loans	568	487	-	81	-	-	-	-
A.2. Substandard loans	43	17	-	26	-	-	-	-
A.3. Restructured exposures	13	2	-	11	-	-	-	-
A.4. Past due exposures	26	9	-	17	-	-	-	-
A.5. Other exposures	39,001	-	92	38,909	3,539	-	2	3,537
Total A	**39,651**	**515**	**92**	**39,044**	**3,539**	**-**	**2**	**3,537**
B. OFF-BALANCE SHEET EXPOSURES								
B.1. Doubtful loans	1	-	-	1	-	-	-	-
B.2. Substandard loans	4	-	-	4	-	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-	-	-
B.5. Other exposures	18,500	-	52	18,448	2,246	-	4	2,242
Total B	**18,505**	**-**	**52**	**18,453**	**2,246**	**-**	**4**	**2,242**
TOTAL (A+B)	**58,156**	**515**	**144**	**57,497**	**5,785**	**-**	**6**	**5,779**

(in millions of euro)

	NON-FINANCIAL COMPANIES				OTHER COUNTERPARTIES				TOTAL
	Gross exposure	Individual adjustments	Collective adjustments	Net exposure	Gross exposure	Individual adjustments	Collective adjustments	Net exposure	Net exposure
A. ON-BALANCE SHEET EXPOSURES									
A.1. Doubtful loans	9,511	6,620	-	2,891	3,121	2,115	-	1,006	3,981
A.2. Substandard loans	4,959	1,253	-	3,706	1,973	469	-	1,504	5,306
A.3. Restructured exposures	521	133	-	388	-	-	-	-	399
A.4. Past due exposures	982	68	-	914	465	76	-	389	1,875
A.5. Other exposures	233,919	-	1,910	232,009	103,418	-	482	102,936	422,044
Totale A	**249,892**	**8,074**	**1,910**	**239,908**	**108,977**	**2,660**	**482**	**105,835**	**433,605**
B. OFF-BALANCE SHEET EXPOSURES									
B.1. Doubtful loans	216	85	-	131	1	-	-	1	133
B.2. Substandard loans	424	56	-	368	7	1	-	6	378
B.3. Other non-performing assets	110	16	-	94	3	-	-	3	97
B.5. Other exposures	100,974	-	190	100,784	6,730	-	43	6,687	135,460
Total B	**101,724**	**157**	**190**	**101,377**	**6,741**	**1**	**43**	**6,697**	**136,068**
TOTAL (A+B)	**351,616**	**8,231**	**2,100**	**341,285**	**115,718**	**2,661**	**525**	**112,532**	**569,673**

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application).

Credit exposures by residual contractual maturity (*)

(in millions of euro)

	On demand	Between 1 and 7 days	Between 7 and 15 days	Between 15 days and 1 month	Between 1 and 3 months	Between 3 and 6 months	Between 6 months and 1 year	Between 1 and 5 years	Over 5 years	Unspecified maturity	Total
A. CASH ASSETS											
A.1 Government bonds	9	11	17	738	664	1,326	3,342	6,836	7,038	5	19,986
A.2 Listed debt securities	5	7	5	39	572	578	637	5,901	5,368	5	13,117
A.3 Other debt securities	270	639	339	99	303	452	1,195	6,042	9,103	2	18,444
A.4 Quotas of UCITS	1,107	20	-	-	-	-	-	-	485	776	2,388
A.5 Loans											-
- Banks	*9,655*	*15,717*	*3,885*	*5,316*	*10,269*	*2,123*	*2,327*	*3,634*	*429*	*326*	53,681
- Customers	*50,944*	*8,208*	*8,556*	*14,944*	*25,750*	*16,924*	*23,609*	*116,752*	*110,842*	*10,341*	386,870
B. OFF-BALANCE SHEET TRANSACTIONS											
B.1 Financial derivatives with exchange of capital											
- Long positions	*6*	*12,641*	*5,429*	*9,453*	*22,671*	*13,148*	*8,774*	*12,650*	*2,723*	*85*	87,580
- Short positions	*7*	*12,935*	*5,527*	*9,793*	*23,405*	*13,278*	*9,055*	*13,557*	*2,404*	*82*	90,043
B.2 Deposits and loans to be settled											
- Long positions	*994*	*2,979*	-	-	-	-	-	-	-	-	3,973
- Short positions	-	*2,955*	*177*	*18*	*259*	*113*	*3*	-	-	-	3,525
B.3 Irrevocable commitments to lend funds											
- Long positions	*389*	*1,250*	*189*	*225*	*2,022*	*4,016*	*7,085*	*28,672*	*6,821*	*1,309*	51,978
- Short positions	*911*	*128*	-	*5*	*2,481*	*2,832*	*4,022*	*54,653*	*10,890*	-	75,922
TOTAL	**64,297**	**57,490**	**24,124**	**40,630**	**88,396**	**54,790**	**60,049**	**248,697**	**156,103**	**12,931**	**807,507**

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application).

Adjustments by geographical area in relation to customers and banks

Adjustments by geographical area in relation to customers as at 31 December 2008 (*)

(in millions of euro)

	ITALY	OTHER EUROPEAN COUNTRIES	AMERICA	ASIA	REST OF THE WORLD	TOTAL
A. ON-BALANCE SHEET EXPOSURES						
A.1. Doubtful loans	7,958	885	77	33	272	9,225
A.2. Substandard loans	1,452	232	35	10	16	1,745
A.3. Restructured exposures	131	3	-	1	-	135
A.4. Past due exposures	157	8	-	-	-	165
A.5. Other exposures	2,017	444	19	10	51	2,541
Total A	**11,715**	**1,572**	**131**	**54**	**339**	**13,811**
B. OFF-BALANCE SHEET EXPOSURES						
B.1. Doubtful loans	51	5	-	-	29	85
B.2. Substandard loans	55	2	-	-	-	57
B.3. Other non-performing assets	16	-	-	-	-	16
B.5. Other exposures	154	122	8	2	6	292
Total B	**276**	**129**	**8**	**2**	**35**	**450**
TOTAL (A+B)	**11,991**	**1,701**	**139**	**56**	**374**	**14,261**

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application).

Adjustments by geographical area in relation to banks as at 31 December 2008 (*)

(in millions of euro)

	ITALY	OTHER EUROPEAN COUNTRIES	AMERICA	ASIA	REST OF THE WORLD	TOTAL
A. ON-BALANCE SHEET EXPOSURES						
A.1. Doubtful loans	1	6	6	-	-	13
A.2. Substandard loans	-	63	-	-	-	63
A.3. Restructured exposures	-	-	-	-	-	-
A.4. Past due exposures	-	-	-	-	-	-
A.5. Other exposures	2	33	2	5	2	44
Total A	**3**	**102**	**8**	**5**	**2**	**120**
B. OFF-BALANCE SHEET EXPOSURES						
B.1. Doubtful loans	-	-	-	-	-	-
B.2. Substandard loans	-	-	-	-	-	-
B.3. Other non-performing assets	-	-	-	-	-	-
B.5. Other exposures	-	5	1	6	1	13
Total B	**-**	**5**	**1**	**6**	**1**	**13**
TOTAL (A+B)	**3**	**107**	**9**	**11**	**3**	**133**

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application).

Changes in adjustments relating to non-performing exposures to customers and banks

Changes in adjustments relating to non-performing exposures to customers as at 31 December 2008 (*)

(in millions of euro)

	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
A. Initial total adjustments	**7,340**	**1,444**	**72**	**131**
B. Increases	**3,434**	**1,808**	**169**	**277**
B.1 Impairment losses	1,959	1,381	93	212
B.2 Transfers from other non-performing exposure categories	622	188	63	16
B.3 Other increases	853	239	13	49
C. Decreases	**-1,549**	**-1,507**	**-106**	**-243**
C.1 Recoveries on impairment losses	-415	-392	-9	-27
C.2 Recoveries on repayments	-325	-155	-3	-18
C.3 Write-offs	-611	-183	-72	-18
C.4 Transfers to other non-performing exposure categories	-44	-688	-22	-145
C.5 Other decreases	-154	-89	-	-35
D. Final total adjustments	**9,225**	**1,745**	**135**	**165**

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application).

Changes in adjustments relating to non-performing exposures to banks as at 31 December 2008 (*)

(in millions of euro)

	Doubtful loans	Substandard loans	Restructured exposures	Past due exposures
A. Initial total adjustments	**7**	**-**	**-**	**-**
B. Increases	**6**	**63**	**-**	**-**
B.1 Impairment losses	6	63	-	-
B.2 Transfers from other non-performing exposure categories	-	-	-	-
B.3 other increases	-	-	-	-
C. Decreases	**-**	**-**	**-**	**-**
C.1 Recoveries on impairment losses	-	-	-	-
C.2 recoveries on repayments	-	-	-	-
C.3 Write-offs	-	-	-	-
C.4 Transfers to other non-performing exposure categories	-	-	-	-
C.5 Other decreases	-	-	-	-
D. Final total adjustments	**13**	**63**	**-**	**-**

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application).

Table 6 – Credit risk: disclosures for portfolios subject to the standardised approach and for specialised lending and equity exposures subject to the IRB approaches

Qualitative disclosure

External agencies used

For the determination of the risk weightings under the standardised approach the Intesa Sanpaolo Group uses the ratings of the following external agencies for all of its portfolios subject to the reporting: Standard & Poor’s ratings Services, Moody’s Investors Service, and Fitch Ratings.

Process of transfer of the issuer or issue credit ratings to comparable assets not included in the regulatory trading book

In compliance with the Bank of Italy Circular 263, the criteria have been defined, as described below, for the use of issue and issuer credit ratings for the assessment of exposure risks and guarantee mitigation.
The risk weighting assigned to the exposures has been determined, in general for the regulatory portfolios, using the issue rating as the primary measure and then, when this is not available and the conditions established by the Circular are met, through the use of the issuer rating.
The same priority has been used in general for all the regulatory portfolios to determine the eligibility of the guarantees and the regulatory volatility corrections to be allocated. For the unrated issues of supervised issuers, the extension of the eligibility is strictly subject to the conditions established by the regulations (listing in regulated markets, non-subordinated securities, and issues of the same rank associated with classes 1 to 3 of the credit quality rating scale).

Quantitative disclosure

Distribution of exposures by credit quality step and by exposure class: standardised approach (*)

(in millions of euro)

Regulatory portfolio	Exposure with credit risk mitigation	Exposure without credit risk mitigation (**)											Exposures deducted from regulatory capital
		0%	10%	20%	35%	50%	75%	100%	150%	200%	Other	TOTAL	
Exposures to or secured by governments and central banks	50,547	50,460	X	187	X	1,097	X	403	-	X	-	52,147	503
Exposures to or secured by local authorities	20,167	168	X	19,698	X	367	X	201	-	X	X	20,434	-
Exposures to or secured by not for profit and public sector organisations	11,652	688	X	8,599	X	40	X	2,356	-	X	X	11,683	-
Exposures to or secured by multilateral development banks	277	258	X	14	X	5	X	-	-	X	X	277	-
Exposures to or secured by international organisations	-	-	X	X	X	X	X	X	X	X	X	-	-
Exposures to or secured by supervised institutions	87,616	39,342	X	58,543	X	7,591	X	7,880	111	X	X	113,467	169
Exposures to or secured by corporates	120,103	3,246	X	8,592	X	7,339	X	103,215	701	X	X	123,093	-
Retail exposures	83,952	443	X	X	X	X	84,154	X	X	X	X	84,597	-
Exposures secured by real estate property	79,450	X	X	X	65,923	13,527	X	X	X	X	X	79,450	-
Past due exposures	6,811	16	X	X	X	671	X	3,522	2,622	X	X	6,831	-
High-risk exposures	825	X	X	X	X	X	X	629	57	138	X	824	-
Exposures in the form of guaranteed bank bonds (covered bonds)	-	X	-	-	X	-	X	-	X	X	X	-	-
Short-term exposures to corporates	1,665	X	X	-	X	-	X	1,774	-	X	X	1,774	-
Exposures to UCITS	1,577	3	X	46	X	-	X	1,529	-	X	-	1,578	-
Other exposures	22,460	4,932	X	6,419	X	X	X	11,108	X	X	X	22,459	3,130
Securitisations	8,204	X	X	X	X	X	X	X	X	X	X	8,204	-
Total credit risk	**495,306**	**99,556**	**-**	**102,098**	**65,923**	**30,637**	**84,154**	**132,617**	**3,491**	**138**	**-**	**526,818**	**3,802**

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different scope of consolidation to the one used for the financial statements (see Table 2 Scope of application) and they refer solely to the portfolios subject to the standardised approach.

(**) The on- and off-balance sheet exposures, divided on the basis of the different risk weights, have been classified in line with the regulatory portfolio of the guarantor (transfer of the risk) in the presence of suitable personal guarantees.

The exposures listed in the columns "Exposures with credit risk mitigation" and "Exposures without credit risk mitigation" contain the off-balance sheet exposures in relation to guarantees and commitments (including the margins available on lines of credit) without the application of the credit conversion factors (CCF) required by the prudential regulations.

Exposures distributed by credit quality step (IRB approach) (*)

(in millions of euro)

Regulatory portfolio	Step	Exposure value
A) Exposures to or secured by corporates: Specialised lending - slotting criteria		
A.1) Regulatory assessment - sufficient	Sufficient	121
A.2) Regulatory assessment - good	Good	1,323
A.3) Regulatory assessment - strong	Strong	254
B. Equity exposures: simple risk weight approach		
B.1) Private equity exposures in sufficiently diversified portfolios	190%	92
B.2) Exchange-traded equity exposures	290%	33
B.3) Other equity exposures	370%	105
Total equity exposures		**1,928**

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application) and they refer solely to the portfolios subject to the IRB approach.

Table 7 – Credit risk: disclosures for portfolios treated under IRB approaches

Qualitative disclosure

Credit risk – disclosures for portfolios treated under IRB approaches

The rollout plan for the internal models

The supervisory regulations provide for two approaches for the calculation of the capital requirement: the Standardised approach and the Internal Rating Based (IRB) approach, in which the risk weightings are a function of the banks' internal assessments of their borrowers. The IRB approach is in turn broken down into a Foundation Internal Rating Based (FIRB) and an Advanced Internal Rating Based (AIRB) that differ in the risk parameters that banks are required to estimate: under the foundation approach, banks use their own PD estimates and regulatory values for the other risk parameters, whereas under the advanced approach these are also estimated internally. Given that the rating systems for retail exposures must reflect both the borrower risk and the specific risk of the transaction, in this case there is no distinction between the foundation and the advanced approach.

As has already been mentioned, Intesa Sanpaolo has been authorised to use the FIRB approach to determine the capital requirements of the Corporate portfolios, with effect from the report as at December 2008.

The application for validation approved by the Bank of Italy involves a plan for the progressive rollout of the internal ratings based approach, over a period of 6 years (2009-2014). The plan distinguishes between the Italian companies belonging to the "initial scope" and the companies for which models will be adopted at a later date.

For the companies within the "initial scope" that constitute the scope of application of the first report using the FIRB approach, the plan provides for the following transitions:

- to the AIRB approach for the Corporate portfolio and to the IRB approach for the small and medium enterprises (SME Retail) and for the exposures secured by residential property (Mortgage) starting from the 31 December 2009 report, initially using the internal estimates of LGD and then (from 2010) also the internal estimates of EAD;
- to the IRB approach for the Other retail exposures starting from the 2010 report;
- to the AIRB approach for Banks and Public Entities starting from the 2012 report.

In addition to the Parent Company the "initial scope" includes: Banco di Napoli, Cassa di Risparmio del Veneto, Cassa di Risparmio di Venezia, Cassa di Risparmio in Bologna, Cassa di Risparmio del Friuli Venezia Giulia, Cassa di Risparmio di Forlì e della Romagna, Banca di Trento e Bolzano, Banca dell'Adriatico, BIIS – Banca Infrastrutture Innovazione e Sviluppo, Mediocredito Italiano Spa, Banca CIS, Leasint and Mediofactoring.

For the Italian companies not included within the initial scope the plan is more intricate and in some cases involves the direct transition to the AIRB approach. The foreign companies are differentiated on the basis of their size and the level of development of the internal risk management systems.

However, the roll-out plan described above does not include certain exposures, which are the subject of a request for authorisation for the permanent partial use of the standardised approach. These relate to the following in particular: exposures to central governments and central banks; exposures to own banking group; exposures to non-major operational units, and non-significant exposure classes in terms of size and level of risk (this category includes loans to non bank financial institutions).

Description of the structure, use, management processes and control mechanisms of the internal rating systems of the regulatory Corporate segment

Structure of the internal rating systems

The main features of the rating systems used are as follows:
- the rating is determined at counterparty level;
- the rating is based at Group level, and is the same for each counterparty, even when they are shared by several entities of the Group;
- the definition of default used corresponds to substandard, doubtful and due/past due loans (see Table 5), also taking into account the cure rate (return to performing) for the technical substandard loans, and is the same across the Group and within its various uses (development, back-testing, disclosure, etc.);
- the segmentation of the rating models has been determined in accordance with both legislation and process and regulatory criteria;
- within the segmentation identified, uniform models have been used as much as possible, although a differentiation has been made where appropriate on the basis of analytical criteria considered to be relevant (e.g. revenue, geographical area, etc.); this differentiation can occur at the development or the calibration phase;
- the models incorporate financial, performance and qualitative components. The manager must also provide an independent assessment of the counterparty's creditworthiness and if the assessment differs from the rating, the manager must implement the override procedure. This procedure provides for the immediate confirmation of the proposed rating in the event of a conservative override and the validation by an independent unit in the case of an improving override. The choice of giving a significant role to the human component enables the rating models to take account of all the information available, including the latest updates or data that would be difficult to incorporate into an automated model;
- the data used for the estimate relate as far as possible to the entire Group: where this is not possible, stratification criteria have been used, to render the sample as representative of the Group as possible;
- the length of the past series used for the development and calibration of the models has been determined on the basis of a compromise between the need to cover a broad timescale and the need to represent the structure of the new Group for the future;
- the rating is reviewed at least once a year, in conjunction with the review of the loan; Intesa Sanpaolo has established procedures that increase the frequency of update when there are signs of deterioration of credit quality.

Use of the rating systems

The ratings are decisive in the process of granting credit and its monitoring and management, and also in pricing, the financial statement processes, the calculation of economic capital, value governance, and reporting, as described below.

Credit granting

The granting of credit involves the use of the rating as an essential reference for the various phases of the process of approving a line of credit for a counterparty.
In particular, the rating determines:
- the assignment of the Credit Policy, which governs the procedures the Bank intends to adopt in assuming risk towards its customers, with the aim of promoting the balanced growth of loans to counterparties of the highest standing, and regulating the issue of credit to customers with lower credit quality, also directing them towards lines of credit with higher levels of guarantees;
- the exercise of the powers assigned, where the rating is one of the two main drivers, together with the features of the line of credit concerned. The method adopted allows the approval limits to be tailored to the customer's level of risk, permitting their extension for low risk customers and progressively transferring the decision concerning the higher risk customers to the senior decision-making bodies.

Credit monitoring and management

Customer credit risk is continuously monitored. In particular, the Non-performing Loan Process is aimed at intercepting and promptly managing customers who show more or less severe signs of difficulty with the possible impairment of the quality of the risk assumed. The positions are intercepted monthly on the basis of several indicators, and are managed according to the risk level established within a structured process with preset rules. The activities involve the re-examination of the positions intercepted via the updating of the rating, the adjustment, if necessary, of the credit policies, and the establishment of operational procedures aimed at minimising the risk.
The monitored PD is calculated centrally on a monthly basis, using the same engine as the online PD, and is therefore capable of capturing the changes in the counterparty's credit rating because it is able to make use of both the updated financial and behavioural information. The comparison between the on line PD and the monitored PD enables the highlighting of the state of the risk profile of the counterparties. In all cases where the minimum set threshold is breached, the rating becomes "non-performing", and must be re-assigned.

Pricing

The Group has a model to calculate the correct pricing of credit risk: this tool can quantify the minimum spread with respect to the internal rate of transfer of funds that the business must implement in order to ensure the coverage of the expected loss and the cost of capital.

Financial Statement Processes

The rating contributes to the preparation of the Financial Statements and the drafting of the Notes to the financial statements through: the collective valuation of performing loans, transforming the expected loss into incurred loss in accordance with IAS/IFRS; the fair value evaluation of derivatives and financial assets available for sale; and the drawing up of tables of distribution of assets by rating class and the presentation of the banking book at fair value in the Notes to the financial statements.

Calculation of economic capital and value governance

In accordance with the provisions of the Second pillar, the methods used to estimate the Economic Capital are based on internal rating models (for both the PD and the LGD component). Through the regulatory and economic capital, the internal ratings contribute to the determination of the Group's value creation during both the assignment of targets to the Business Units and the operational performance measurement.
The Group also has a Value Governance Model aimed at directing customer business development decisions during the origination phase, in accordance with the objectives of achieving "healthy" and "sustainable" growth of the Group.

Reporting

The rating forms the basis of the management reporting and is spread across the risks of the loan portfolio.
For the management reporting, the Risk Management Department produces the Risks Tableau de Bord on a quarterly basis that provides an overall view of the Group's risk position at the end of the respective quarter with reference to the combination of all the risk factors, according to the layout established by Basel 2 (Pillar 1 and Pillar 2). The main items that are analysed in the Risks Tableau de Bord are absorbed capital (regulatory vs. economic) and the specific measurement criteria for each individual risk (e.g. sensitivity, expected loss).

The process for managing and recognising credit risk mitigation techniques

The process of acquisition, valuation, and control of guarantees at banking group level consists of:
– instruments and applications; and
– policies, processes and procedures

capable of verifying compliance with the regulatory provisions in order to benefit from the recognition of the guarantees in the calculation of the regulatory capital.
The applications include software for the assessment of the eligibility of the individual personal, mortgage and financial guarantees, that enable the verification of compliance with the general and specific eligibility requirements.

The general and specific requirements may be summarised as:
- technical and legal requirements: aimed at ensuring the legal certainty and the effectiveness of the guarantees, and specific to the characteristics of the individual types of guarantee;
- specific requirements: established for each type of guarantee in relation to its specific features, they are aimed at ensuring that the credit protection is highly effective;
- organisational requirements: general requirements aimed at ensuring an efficient system for the management of credit risk mitigation techniques that oversees the entire process of acquisition, valuation, control and implementation of the CRM instruments.

With regard to the policies and processes, the compliance of the management processes for the already existing guarantees has been verified and the new internal regulations/processes required to meet the regulatory requirements of Circular 263/2006 have been established.

Control and auditing of the rating systems

A prerequisite for the adoption of internal risk measurement systems for the calculation of the regulatory capital is an internal validation and auditing process for the rating systems, both during their establishment, aimed at obtaining the authorisation from the Supervisory Authorities, and during their ongoing operation/maintenance once the authorisation has been given.
The function responsible for the internal validation process for the Intesa SanPaolo Group is the Internal Validation office, which operates independently from the functions that manage the development activities described above and from the function responsible for the internal audit. Therefore, with regard to the macro processes of adoption and management of the internal measurement systems for credit and operational risk, the following activities are assigned exclusively to the Internal Validation office:
- Validation aimed at assessing the adequacy of the system with respect to the regulatory requirements and to the operational demands of the business and the target market, and formulation of an opinion on the overall performance of the systems, their proper functioning and effective use within the various areas of business management, also indentifying any problems and necessary improvements;
- Preparation of the validation report to be presented to the Management Board and the Supervisory Board to accompany the resolution for the certification of compliance of the internal system with the regulatory requirements and the application for authorisation to the Bank of Italy;
- Regular issue of recommendations to the development functions in relation to the performance, operation and use of the internal systems;
- Regular analyses aimed at assessing the performance and proper functioning of the internal system and the provision of the related information to the internal auditing function and the Group Risk Governance Committee;
- Preparation of the annual validation report highlighting any problems/areas for improvement of the system to be submitted to the attention of the development functions, the internal auditing function and the Corporate Bodies.

The internal auditing function for the Intesa SanPaolo Group is assigned to the Internal Auditing Head Office Department. This department conducts assessments of the entire process of adoption and management of the internal measurement systems for credit and operational risk in accordance with the procedures and the areas of responsibility established by the company regulations and on the basis of a specific work plan.
Specifically, this department is responsible for assessing the effectiveness of the overall structure of the process of measurement, management and control of the Group's exposure to credit and operational risks also through the regular audit of the internal validation process for the related models developed in accordance with Basel 2 and the Prudential Supervisory regulations.

The Internal Auditing Head Office Department is therefore exclusively responsible for the activities of:
- Internal audit aimed at verifying the compliance of the risk measurement systems with the requirements established by the regulations;
- Assessment of the effectiveness of the overall structure of internal controls:
  - Audit of the internal validation process (assessment of the adequacy/completeness of the analyses conducted and the consistency/soundness of the results);
  - Audit of the first and second level controls;
- Assessments of the effective operational use of the internal risk measurement systems;
- Verifications of the completeness and reliability of the IT system;
- Regular issue of recommendations to the development functions and internal validation of the performance, operation and use of the internal systems;

- Drafting of the report accompanying the application for authorisation to the Bank of Italy;
- Drafting of the annual internal auditing report with presentation to the Group Risk Governance Committee, the Control Committee, the Management Board and the Supervisory Board.

The macro process of management, maintenance and updating of the internal rating system involves the following activities that represent the system's normal "life cycle":

- Activation of the management, maintenance and updating process;
- Amendments to the System;
- Internal verifications, consisting of periodic validation and internal auditing.

Description of the regulatory Corporate segment internal rating systems

The regulatory Corporate segment consists of companies or groups of companies with exposure of the banking group of over 1 million euro or with consolidated revenue of over 2.5 million euro.
Two groups of models and associated credit processes have been developed in the segment. The first of these involves Italian and foreign non-financial institutions. The second refers to "specialised lending" and in particular to project finance and real estate development initiatives.

The Corporate Italy and Large Corporate Italy models

The Corporate Italy rating model applies to the Italian unrated Corporate customers (i.e. not assigned an agency rating) belonging to the manufacturing, commercial, services, long-term production and real estate sectors, and it can be used for both standalone and consolidated financial statements.
The definition of default (impairment) used comprises Past Due, Substandard and Doubtful loans (see Table 5).
The model consists of two modules, one quantitative and the other qualitative, which generate an overall rating that may be altered by the proposing manager, by amending it according to the rules established in the override process.
Each customer's initial score is calculated by means of a linear combination of appropriately converted indicators originating from two quantitative areas (finance and performance). The model is optimised per revenue band and is called "Financial" when only the financial statement information is available, and "Financial-Performance" when the set of information also includes the data from the Central Credit Register. The historical data used for the estimate and the calibration cover the period from 1999.
The score is converted into a probability of default (PD) via the calibration of the long-term default rates of the portfolio ("central trends") differentiated according to revenue band and macro geographic area. The PD is then translated via the master scale into 2 classes of credit quality, obtaining the rating statistic.
In between the quantitative and the qualitative module, there is a comparison with an internal performance indicator of the counterparty's level of risk that in certain cases can worsen the risk class.
The qualitative module consists of a questionnaire through which the manager provides a structured assessment of the company, broken down into several areas of analysis. For the Large Corporate counterparties (domestic counterparties with an annual counterparty revenue of over 500 million euro that have not been assigned a rating by one of the main agencies) a specific qualitative questionnaire is used, adapted with suitable adjustments from the questionnaire used for the assessment of the international counterparties.
The model's output is broken down into several areas of analysis: economic and financial - which are in turn broken down into profitability and debt servicing, management of current assets and capital structure -, qualitative - also divided into various areas – and performance. The manager is required to provide an independent assessment for each area, which interacts with the model's output as part of the abovementioned override procedure, determining the final rating.

The International Corporate models

The International Corporate segment is assessed on the basis of two different models, both developed on the basis of a shadow rating approach, namely using the agency rating as a target estimation variable instead of the performing/default status. This set up was required because of the small number of defaults recorded in this segment in the Bank's historical databases.
The International Large Corporate rating model applies to non-resident customers with a revenue of over 500 million euro and to Italian corporate customers subject to an internal rating (rated)[1],whereas the

[1] Those assigned a rating by at least one of the main Agencies (Standard & Poor's, Moody's and Fitch).

international Middle Market model is used to assess non-resident customers with a revenue of less than 500 million euro.
For the international models the override procedure is activated by a comparison with the agency rating, if available, or by providing an assessment over several areas of analysis, in the same way as the Corporate Italy segment, for unrated counterparties.

a) The International Large Corporate Model
Like the Domestic Corporate segment, this model consists of two modules, one quantitative and the other qualitative, which generate an overall rating that may be altered by the proposing manager, by amending it according to rules established in the override process.
The quantitative module is estimated on a sample of international businesses with an agency rating, and generates a score that is the linear combination of financial statement indicators.
The qualitative model consists of a questionnaire divided into two areas of analysis (sector and competitive position and the specific features of the counterparty). The two parts of the qualitative module generate scores that are supplemented by the quantitative score on a statistical basis, producing an overall score that is then calibrated on a central trend representing the long-term default rate of the portfolio concerned.

b) The International Middle Market model
Unlike the models described above, this model only has one module containing both quantitative indicators, automatically updated from the financial statement figures, and qualitative indicators, integrated into a linear combination.
The score is calibrated in the same way as in the International Large Corporate segment, also in terms of the benchmark PD.

The Specialised Lending models
The Specialised Lending segment is covered by the model for Project Finance and the RED (Real Estate Development) model for the real estate development initiatives.

a) The Project Finance model
The Project Finance model consists of a statistical module, which unlike the standard models is based on a Monte Carlo simulation of the future cash flows, and therefore looks at prospective information as opposed to historical data, generating a value of expected loss (PDxLGD) as an output, and of a qualitative model, which determines the classification of the project based on the slotting approach.
The Expected Loss resulting from the statistical module is supplemented by a slotting assessment by means of a coherency matrix, with the support of an opinion provided by the analyst.
Given that the recognition of the rating model to calculate the capital requirement would also entail the validation of the LGD component, ahead of the projected time scales set out in the roll-out plan, the slotting approach (see Table 6) is currently being used for regulatory reporting purposes and the request for validation of the complete model has been postponed in conjunction with the LGD models for the Corporate segment.

b) The Real Estate Development (RED) model
The RED model is an expert-based model, developed on the basis of the experience of credit analysts and calibrated taking into account the quantitative information available. For this segment there are currently not enough defaults or other target variables to enable a fully statistical approach.
It consists of a questionnaire compiled by the manager, partly through answers to qualitative questions and partly by entering numeric data, and is split into:
- a quantitative section, which provides a quantitative rating;
- a qualitative section, which produces a notching of the quantitative rating (overall rating);
- a section relating to the guarantees, which enables the calculation of the project LGD and consequently also of the expected loss.

Quantitative disclosure

Exposure values for each regulatory portfolio(*)

(in millions of euro)

Regulatory portfolio	Exposure value IRB foundation
Exposures to or secured by corporates:	
- *Specialised lending*	*4,007*
- *SMEs (Small and Medium Enterprises)*	*59,809*
- *Other corporates*	*121,471*
Total credit risk (IRB)	**185,287**

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different scope of consolidation to the one used for the financial statements (see Table 2 Scope of application) and they refer soley to the portfolios subject to the IRB approach.

Distribution of exposures by exposure class and PD class (*)

(in millions of euro)

Regulatory portfolio	Rating class	Central PD (%)	Exposure value	Average risk weight
Exposures to or secured by corporates				
Specialised lending			**4,007**	
	-class 1 / 8		-	
	-class 9	0.29	56	0.32
	-class 10	0.44	73	0.39
	-class 11	0.67	225	0.47
	-class 12	1.00	406	0.59
	-class 13	1.49	486	0.62
	-class 14	2.22	531	0.71
	-class 15	3.31	656	0.80
	-class 16	4.93	505	0.93
	-class 17	7.37	434	1.11
	-class 18	10.94	367	1.24
	-class 19	16.35	88	1.35
	-class 20	24.91	27	1.64
	-class 21 (default)	100.00	153	

(in millions of euro)

Regulatory portfolio	Rating class	Central PD (%)	Exposure value	Average risk weight
Exposures to or secured by corporates				
SMEs (Small and Medium Enterprises)			**59,809**	
	-class 1 / 5		-	
	-class 6	0.09	3,270	0.25
	-class 7	0.13	1,620	0.30
	-class 8	0.20	2,152	0.37
	-class 9	0.29	3,070	0.45
	-class 10	0.44	4,749	0.57
	-class 11	0.67	5,858	0.65
	-class 12	1.00	6,444	0.74
	-class 13	1.49	6,731	0.84
	-class 14	2.22	5,533	0.91
	-class 15	3.31	5,240	1.01
	-class 16	4.93	3,385	1.12
	-class 17	7.37	2,539	1.30
	-class 18	10.94	1,550	1.51
	-class 19	16.35	933	1.76
	-class 20	24.91	727	1.90
	-class 21 (default)	100.00	6,008	
Other corporates			**121,471**	
	-class 1		-	
	-class 2	0.03	1,314	0.15
	-class 3	0.04	260	0.18
	-class 4	0.05	7,464	0.21
	-class 5	0.06	779	0.23
	-class 6	0.09	9,201	0.30
	-class 7	0.13	11,896	0.35
	-class 8	0.20	8,437	0.45
	-class 9	0.29	7,331	0.55
	-class 10	0.44	15,984	0.68
	-class 11	0.67	13,311	0.79
	-class 12	1.00	10,464	0.90
	-class 13	1.49	8,561	1.06
	-class 14	2.22	6,609	1.18
	-class 15	3.31	6,988	1.13
	-class 16	4.93	3,370	1.51
	-class 17	7.37	1,380	1.67
	-class 18	10.94	796	1.86
	-class 19	16.35	3,103	2.08
	-class 20	24.91	850	2.31
	-class 21 (default)	100.00	3,373	

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application) and they refer soley to the portfolios subject to the IRB approach.

The exposure value shown in the tables of this Table is stated gross of value adjustments.

Comparison between estimated and actual results

The Intesa Sanpaolo Group reports its capital requirements on the basis of the FIRB approach, and therefore only referring to the (corporate) PD and not the LGD. Consequently, no comparisons are being made for now between expected loss and actual (accounting) loss. The comparison between the estimated and actual results in terms of PD on the other hand is made by the Validation Unit, which carries out regular backtesting. Specifically, the default rates over a one-year period are compared with the ex ante estimated Probabilities of Default, using statistical tests such as the binomial test. For 2008, the results of the analysis showed that the models are essentially robust, taking into consideration a rapidly deteriorating economic cycle.

Table 8 – Risk mitigation techniques

Qualitative disclosure

Policies and processes for, and indication of the extent to which the Bank makes use of, on- and off-balance sheet netting

The Intesa Sanpaolo Group does not use on-balance sheet offsetting techniques for mutual items between the Bank and the counterparty.

The Group uses (bilateral) netting agreements that, in the event of default of the counterparty, enable the netting off of mutual claims and obligations in relation to transactions in financial instruments and credit derivatives, as well as securities financing transactions (SFTs).

This takes place through the signature of ISDA agreements (for transactions in derivatives) and ISMA/PSA agreements (for transactions involving securities). Both of these protocols enable the management and mitigation of credit risk. In compliance with the conditions laid down by the Supervisory regulations, these agreements permit the reduction of the absorption of regulatory capital.

The Group also establishes collateral agreements to cover transactions in OTC derivatives and SFTs (respectively the Credit Support Annex and Global Master Repurchase Agreement). Another mitigation technique used within the Group is the subscription to the SwapClear service. This is a clearing service (provided by LCH Clearnet Ltd for the professional interbank market) for the most standard types of over the counter derivative contracts (plain vanilla IRS). The individual transactions, previously concluded between the subscribers to the service, are subsequently transferred to the clearing house, which, in the same way as for listed derivatives, becomes the counterparty for the original contracting parties via a legal novation mechanism. SwapClear provides for the settlement of the daily variation margin on the individual transactions, so that the mutual claims and obligations are automatically netted off against each other.

In addition to the reduction of operational risk (through the daily netting off of all the cash flows and the precise control of the transactions), SwapClear offers the typical advantages of centralised netting and collateralisation agreements. Also, the Group’s subscription to the CLS – Continuous Linked Settlement circuit, and to the corresponding settlement services on a payment-versus-payment basis has enabled the mitigation of the settlement risk at the time of mutual payments with counterparties.

Policies and processes for collateral evaluation and management

The granting of credit with the acquisition of collateral is subject to internal rules and processes – for the evaluation of the asset, the acceptance of the guarantee and the control of its value – differentiated according to pledged and mortgage collateral. The enforcement of the guarantee is handled by specialist departments responsible for credit recovery.

In any case, the presence of collateral does not grant exemption from a complete assessment of the credit risk, mainly concentrated on the borrower's ability to meet the obligations assumed, irrespective of the associated guarantee.

Under certain conditions (type of counterparty, rating assigned, type of contract), the collateral has an impact, as a mitigating factor, on the determination of the approval limits. For this purpose the eligible collateral is formally grouped into two separate classes:

– strong collateral;
– medium collateral.

The following are considered to be strong collateral:

– cash pledge (currencies of the OECD countries);
– pledge on OECD government securities;
– pledge on financial instruments issued by the Bank;
– pledge on listed bonds;
– pledge on shares listed in regulated markets;
– pledge on investment fund quotas (pledges on quotas of investment funds whose valuation may be obtained from major financial national daily newspapers are considered as valid);

- pledge on managed portfolios of the Banking Group;
- pledge on life insurance policies;
- pledge on repurchase agreements;
- mortgage on residential property;
- mortgage on commercial/service sector property;
- mortgage on industrial property;
- mortgage on agricultural land/property;
- mortgage on property under construction/building areas ("building areas" mean those identified by the urban planning instrument) provided that:
    a. the value of the collateral, net of the haircut, generally defined on the basis of the characteristics of the asset, covers at least 100% of the specific line of credit proposed;
    b. they are provided without any time limits or, if the collateral has an expiry date, this is not before the expiry of the loan guaranteed;
    c. they are acquired in a form that is enforceable against third parties and in accordance with the procedures established by the regulations prevailing at the time.

The following are considered to be medium collateral:

- the strong collateral, when its value covers between 99% and 50% of the amount of the line of credit, net of the haircut;
- pledge on listed or surveyed goods/items of value;
- subordinate mortgage after the second mortgage;
- mortgage on a non-building area.

The collateral, formally defined as medium, is considered valid when the conditions established for strong collateral are met in relation to temporal validity and legal certainty.

During the credit granting phase, the assessment of the pledged collateral is based on the actual value, namely the market value for financial instruments listed in a regulated market, or, otherwise, the estimated realisable value. The resulting value is multiplied by the haircut percentage rates, differentiated according to the financial instruments or set of financial instruments accepted as collateral.
In order to limit the risks of absence or termination of the protection, specific safeguards are in place, including: restoration of the collateral in the presence of a reduction of the initial value of the assets and the extension of the pledge to include sums from the redemption of the financial instruments.

With regard to mortgage collateral, separate processes and methods are aimed at ensuring the proper assessment and monitoring of the value of the properties accepted as collateral.
Assets are evaluated, prior to the decision to grant the credit, using both internal and external technicians. The external technicians are included in a special list of professionals accredited on the basis of an individual verification of their capabilities and experience and the characteristics of absolute professional independence. The work of the experts is monitored on an ongoing basis, by means of statistical verifications and spot checks carried out centrally.
The experts' duties are scaled on the basis of both the amount of the transaction and the property types. A system is also in place for the review by the central functions of the expert surveys for large-scale transactions.
The technicians are required to produce estimates on the basis of standardised expert technical reports, differentiated according to the valuation method to be applied and the building category of the asset offered as collateral.
In order to ensure that the standards and valuation criteria are uniform, a "Property Valuation Code" is in force, which ensures the compatibility of the estimates and guarantees that the value of the property is calculated clearly and transparently on a prudential basis.
During the credit granting phase, the valuation of the properties is based on the prudential market value or, for properties under construction, on the construction cost. The resulting value is multiplied by the haircut percentages, differentiated on the basis of the property's designated use.
The value of properties under construction is monitored on an ongoing basis by experts who perform inspections, verify the progress of the works and prepare technical reports for loan disbursement for transactions on a work progress basis.
The valuation is updated in the event of limitation or splitting of the mortgage, of damage to the property and, in any case, every three years for major exposures.

To cover the residual risks, the borrower is required to provide an insurance policy against fire damage, issued by companies that have an agreement with or are approved by the Bank. The insurable value is determined by a survey, on the basis of the property's reconstruction cost new.

The main types of guarantor and credit derivative counterparty and their creditworthiness

The credit derivative transactions have banks and international financial and insurance institutions as counterparties that are almost all classed as high investment grade.

Information about market or credit risk concentrations under the credit risk mitigation instruments used

Personal guarantees

Personal guarantees, as noted in the quantitative disclosure, cover a limited amount of the overall credit exposure.
The main guarantor is the Italian government, representing around 25% of the guarantees received. As a whole, the first ten guarantors, almost exclusively consisting of sovereign states of the European Union and Italian and European banking institutions, represent around two thirds of the overall amount of the guarantees. The other types of guarantor, namely public entities, businesses, and trade associations and consortiums, do not have any significant concentrations.

Financial collateral

The majority (around 90%) of the financial collateral eligible for risk mitigation relates to repurchase agreements. The securities are almost all issued by the Italian government and other sovereign issuers belonging to the euro area.
As regards the potential exposure to market risk, it should be noted that two thirds of these securities have a maturity of less than 5 years.

Other collateral

Other collateral consists almost entirely of mortgages on real estate assets. Although there are no particular concentrations, for example in individual assets or particular geographical areas, the major amount of mortgage lending is in the Bank's exposure to a systematic risk factor represented by the prices of the real estate assets. This exposure, which is naturally inherent to lending operations, is quantified by means of appropriate scenario and stress analyses within the ICAAP process.

Quantitative disclosure

Distribution of exposures secured by collateral, guarantees or credit derivatives by exposure class (*)

Secured exposures subject to the Standardised approach (*)

(in millions of euro)

Regulatory portfolio	Collateral	Guarantees or credit derivatives
Exposures to or secured by governments and central banks	52	1,549
Exposures to or secured by local authorities	4	263
Exposures to or secured by not for profit and public sector organisations	9	24
Exposures to or secured by multilateral development banks	-	-
Exposures to or secured by international organisations	-	-
Exposures to or secured by supervised institutions	23,809	2,042
Exposures to or secured by corporates	1,830	1,153
Retail exposures	647	-
Past due exposures	20	-
High-risk exposures	-	-
Exposures in the form of guaranteed bank bonds (covered bonds)	-	-
Short-term exposures to corporates	110	-
Exposures to UCITS	-	-
Other exposures	-	-
Securitisations	-	-
Total	**26,481**	**5,031**

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application).

As stated in Table 6, the "the exposures secured by real estate property" amounted to 79,450 million euro. This information is not reported in the table because the current prudential regulations require the assignment of a reduced weighting to these exposures, of 35% and 50% respectively, in relation to the mortgage collateral received. This differs from the requirements for the other collateral (e.g. cash collateral or securities received as pledges) that – in the event of the application of the comprehensive method – reduce the risk exposure, and for personal guarantees and financial collateral (simplified method) that transfer the related risk to the regulatory portfolio of the guarantor.

Secured exposures subject to the foundation IRB approach (*)

(in millions of euro)

Regulatory portfolio	Collateral	Guarantees or credit derivatives
Exposures to or secured by corporates		
Specialised lending	3,267	-
SMEs	16,854	160
Other corporates	12,213	248
Specialised lending - slotting criteria	-	-

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application) and they refer solely to the portfolios subject to the IRB approach.

Table 9 – Counterparty risk

Qualitative disclosure

Counterparty risk, in accordance with Bank of Italy Circular 263 – "New regulations for the prudential supervision of banks", is a specific type of credit risk and represents the risk of a counterparty in a transaction defaulting before the final settlement of the cash flows involved in the transaction. The regulations lay down specific rules for the quantification of the amount of the exposures while referring to those governing credit risk for the determination of risk weightings.

In accordance with these regulations, counterparty risk is calculated for the following categories of transactions:

- over-the-counter (OTC) financial and credit derivatives;
- Securities Financial Transactions -SFTs (e.g. repurchase agreements);
- transactions with medium to long-term settlement.

The framework provides for the uniform treatment of counterparty risk regardless of the portfolio in which the exposures have been classified (the banking and regulatory trading books are both subject to capital requirements for counterparty risk). For the purposes of reducing the amount of the exposures, recognition of various types of contractual netting arrangements ("Master netting agreements") is permitted, subject to compliance with statutory requirements.

For regulatory reporting purposes the Group currently uses the "mark-to-market" approach for the calculation of the exposures subject to counterparty risk for OTC financial and credit derivatives, whereas for repurchase agreements it considers the guarantee in securities as financial collateral, directly reducing the value of the exposure ("comprehensive" method).

The counterparty risk that affects the types of transactions referred to above generates an exposure corresponding to their positive fair value plus the future credit exposure (add-ons, namely the percentage value applied to the notional amount of the derivative). These add-ons differ depending on the residual maturity of the transaction and the type of underlying risk (interest rate, equity, exchange…).

In order to improve the capacity for the analysis and control of counterparty risk, a specific project has been set up aimed at obtaining the estimate, also for regulatory purposes, of the statistical measures that enable the analysis of the evolution of the risk of the derivatives over time. In particular, the following have been defined:

- PFE (potential future exposure): evolution over time of the credit exposure (i.e. positive mark-to-market) with a 95% confidence level;
- EPE (expected positive exposure): weighted average for the expected time of the credit exposure, where the weightings are the portions that each time step represents of the entire time period.

For the scope of transactions referred to above, the project involves the calculation of the EPE using the Monte Carlo multistep simulation during the period of the exposure, the related reporting, the revision of the procedures for the determination of the lines in accordance with the new method to be applied to the monitoring, and the contribution of the EPE/PFE measures to the monitoring systems for the lines of credit. The development activities carried out by the company provide for the possibility of using the new measure for operational purposes from the first half of 2010, and the submission of the request to the Supervisory Authority for approval for the use of the model for regulatory purposes subject to internal validation by the relevant company departments (Internal Validation and Internal Auditing Department).

From the operational perspective, Intesa Sanpaolo currently uses an internal method, established by the Risk Management Department, to estimate the add-ons and to define the use of the approved lines. This is a more granular grid than the one used for regulatory purposes, established using statistical simulations enabling the measurement of the potential future risk of a derivative.

In general, the definition of the use of the credit lines involves the application of the greater of the mark-to-market and the add-on to determine the credit exposure, taking into account any existing netting and collateral agreements.

The loan facility for OTC transactions is defined on precisely the same basis as the on-balance sheet exposures, as the transactions in derivatives represent a particular form of use by the customers. The grid for the operational add-ons forms part of the monitoring systems for the lines of credit for OTC derivatives that apply the calculation algorithm on a daily basis to quantify the credit exposure to a particular counterparty.

The Group makes extensive use of netting and cash collateral agreements to substantially mitigate the exposure to counterparties, especially towards banks and financial institutions (see Table 8 for further details).

For the purposes of the balance sheet measurements, the counterparty risk represents a measurement element (fair value) used to adjust the positive mark-to-market of the OTC derivatives through a process of Credit Risk Adjustment (CRA).
The determination of fair value considers not only market factors and the nature of the contract (maturity, type of contract, etc.), but also the credit quality of the counterparty in relation to the current and potential exposure.
CRA is determined with reference to the cost of a protection CDS on the default of the counterparty on the basis of the average residual maturity of the contract, and in the absence of the expected loss and the capital absorption deriving from the internal rating assigned to the counterparty. These costs are applied to the current exposure, if positive, or otherwise to the potential future exposure (add-on).

Particular attention is paid to "wrong way risk". Specifically, during the weekly Risk Meetings aimed at examining the trading positions, the features of those providing cover for the main risks are highlighted in order to assess whether there is a high correlation between the positive performance of the mark-to-market and the probability of default of the counterparty.

With reference to the impact in terms of guarantees that the Bank would have to provide in the event of the downgrading of its credit rating, some of the collateral agreements signed by the Group provide for the reduction of the minimum transfer amount and of the thresholds in the event of the Group's downgrading.

Quantitative disclosure

Counterparty risk (*)

(in millions of euro)

Transaction categories	Mark-to-market method
	Exposure
Derivative contracts	23,016
SFT transactions and long settlement transactions	32,106
Cross product netting	-

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application).

Credit derivatives: period-end notional amounts (*)

(in millions of euro)

Exposure categories	Trading book for supervisory purposes		Other transactions	
	single counterparty	several counterparties (basket)	single counterparty	several counterparties (basket)
A. Protection purchases				
A.1 Physical settlement	33,568	36,999	66	-
A.2 Cash settlement	631	1,515	507	-
TOTAL A	**34,199**	**38,514**	**573**	**-**
B. Protection sales				
B.1 Physical settlement	32,827	38,959	-	-
B.2 Cash settlement	1,026	1,871	-	-
TOTAL B	**33,853**	**40,830**	**-**	**-**

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application).

Over the counter financial derivatives: positive fair value - counterparty risk (*)

(in millions of euro)

	Debt securities and interest rates			Equities and stock indexes		
	Gross amount not settled	Gross amount settled	Future exposure	Gross amount not settled	Gross amount settled	Future exposure
A. Trading book for supervisory purposes						
1. Governments and Central Banks	304	-	-	-	-	-
2. Other public entities	480	-	38	1	-	2
3. Banks	1,708	23,635	5,000	63	776	631
4. Financial institutions	408	7,542	1,219	15	257	220
5. Insurance companies	1	-	-	-	3	9
6. Non-financial companies	1,349	16	195	88	6	19
7. Other counterparties	11	-	2	-	-	-
TOTAL A	**4,261**	**31,193**	**6,454**	**167**	**1,042**	**881**
B. Banking book						
1. Governments and Central Banks	-	-	-	-	-	-
2. Other public entities	-	-	-	-	-	-
3. Banks	162	1,138	21	-	67	1
4. Financial institutions	-	259	1	-	7	4
5. Insurance companies	-	-	-	-	-	-
6. Non-financial companies	115	-	2	-	-	-
7. Other counterparties	4	-	1	-	-	5
TOTAL B	**281**	**1,397**	**25**	**-**	**74**	**10**

(in millions of euro)

	Foreign exchange rates and gold			Other values		
	Gross amount not settled	Gross amount settled	Future exposure	Gross amount not settled	Gross amount settled	Future exposure
A. Trading book for supervisory purposes						
1. Governments and Central Banks	-	413	36	-	-	-
2. Other public entities	-	-	-	-	-	-
3. Banks	538	2,357	372	-	70	3
4. Financial institutions	204	277	104	-	4	1
5. Insurance companies	13	2	31	-	-	-
6. Non-financial companies	362	290	81	50	-	10
7. Other counterparties	14	-	10	13	-	2
TOTAL A	**1,131**	**3,339**	**634**	**63**	**74**	**16**
B. Banking book						
1. Governments and Central Banks	-	-	-	-	-	-
2. Other public entities	-	-	-	-	-	-
3. Banks	41	264	5	-	-	-
4. Financial institutions	124	6	11	-	-	-
5. Insurance companies	-	-	-	-	-	-
6. Non-financial companies	3	-	-	-	-	-
7. Other counterparties	-	-	-	-	-	-
TOTAL B	**168**	**270**	**16**	**-**	**-**	**-**

(in millions of euro)

	Diverse underlying assets			Total		
	Gross amount not settled	Gross amount settled	Future exposure	Gross amount not settled	Gross amount settled	Future exposure
A. Trading book for supervisory purposes						
1. Governments and Central Banks	X	412	36	304	825	72
2. Other public entities	X	1,731	1,160	481	1,731	1,200
3. Banks	X	516	319	2,309	27,354	6,325
4. Financial institutions	X	163	27	627	8,243	1,571
5. Insurance companies	X	255	66	14	260	106
6. Non-financial companies	X	-	-	1,849	312	305
7. Other counterparties	X	-	-	38	-	14
TOTAL A	**-**	**3,077**	**1,608**	**5,622**	**38,725**	**9,593**
B. Banking book						
1. Governments and Central Banks	X	-	-	-	-	-
2. Other public entities	X	-	-	-	-	-
3. Banks	X	100	71	203	1,569	98
4. Financial institutions	X	29	4	124	301	20
5. Insurance companies	X	-	-	-	-	-
6. Non-financial companies	X	-	-	118	-	2
7. Other counterparties	X	-	-	4	-	6
TOTAL B	**-**	**129**	**75**	**449**	**1,870**	**126**

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application).

Credit derivatives: positive fair value - counterparty risk (*)

(in millions of euro)

	Notional amount	Positive fair value	Future exposure
A. Trading book for supervisory purposes	**71,714**	**4,497**	**1,562**
A.1 Protection purchases with:	65,143	4,371	1,562
1. Governments and Central Banks	-	-	-
2. Other public entities	*23*	*49*	*2*
3. Banks	*48,897*	*3,255*	*1,120*
4. Financial institutions	*16,223*	*1,067*	*440*
5. Insurance companies	-	-	-
6. Non-financial companies	-	-	-
7. Other counterparties	-	-	-
A.2 Protection sales with:	6,571	126	-
1. Governments and Central Banks	-	-	-
2. Other public entities	-	-	-
3. Banks	*5,313*	*102*	-
4. Financial institutions	*1,258*	*24*	-
5. Insurance companies	-	-	-
6. Non-financial companies	-	-	-
7. Other counterparties	-	-	-
B. Banking book	**573**	**-**	**-**
B.1 Protection purchases with:	573	-	-
1. Governments and Central Banks	-	-	-
2. Other public entities	-	-	-
3. Banks	*51*	-	-
4. Financial institutions	*522*	-	-
5. Insurance companies	-	-	-
6. Non-financial companies	-	-	-
7. Other counterparties	-	-	-
B.2 Protection sales with:	-	-	-
1. Governments and Central Banks	-	-	-
2. Other public entities	-	-	-
3. Banks	-	-	-
4. Financial institutions	-	-	-
5. Insurance companies	-	-	-
6. Non-financial companies	-	-	-
7. Other counterparties	-	-	-
TOTAL	**72,287**	**4,497**	**1,562**

(*) The figures presented in this table may differ from the corresponding information contained in Part E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application).

Table 10 – Securitisations

Qualitative disclosure

Securitisations: objectives and the roles undertaken by the Bank

Own securitisations

The own securitisations of the Intesa Sanpaolo Group may be distinguished between:

- securitisations that, through the conversion of the loans sold into refinanceable securities, form part of the overall general policy of strengthening of the Group's liquidity position ("self-securitisations and eligibility");
- securitisations structured with the objective of achieving economic benefits from the optimisation of the loan portfolio, the diversification of funding sources and the reduction of their cost ("standard securitisations").

The Group conducts these transactions using Special Purpose Entities (SPEs), namely vehicles that permit an entity to raise resources through the securitisation of part of its assets. In general this involves the spin-off of a package of balance sheet assets (generally loans) and its subsequent transfer to a vehicle that, to finance the purchase, issues securities, which are later placed in the market or through a private placement. Resources raised in this way are returned to the seller, whereas the commitments to the subscribers are met using the cash flows generated by the loans sold.

Self-securitisations and eligibility

In previous years, Intesa Sanpaolo's cash securitisations (non-synthetic) were mainly a medium-long term funding instrument, structured with the aim of reducing the liquidity gap between medium-term loans and short-term deposits, of diversifying the sources of financing and the investor base, and of obtaining funding at a competitive rate, through the issue of securities with a AAA rating or in any case with a rating higher than the Bank's rating.

In view of the critical condition of the financial markets, in recent months the Group has considered it prudent to enhance its portfolio of eligible assets to establish a liquidity reserve activated through ECB financing operations or by means of the instruments established as part of the emergency measures adopted by the Italian Government and the Bank of Italy to guarantee the stability of the credit system.
This has mainly taken place through "self-securitisations" of Group assets, also through the analysis of particular types of assets (such as certain loans to the public sector and large corporates). Despite the fact that it has an excellent liquidity profile, Intesa Sanpaolo has considered it appropriate to expand its options for access to the short-term funding market.
Nevertheless, a prudential decision has been taken, given the current market environment, to maintain an adequate and equivalent level of eligible assets in relation to its interbank funding (also in the form of CDs and CPs).

It should also be noted that the issue of RMBSs in relation to Italian residential mortgages (such as Adriano Finance and Adriano Finance 2, described in detail below) also helps in creating the cover pool supporting the issues of medium and long term covered bonds (one of the few segments of the market that is still currently active, as demonstrated by recent transactions) to be placed with the institutional market.
A large part of the RMBS notes originating from self-securitisations are therefore initially designated for use for ECB eligibility but may also be subsequently used as the cover pool for the programme of Guaranteed Bank Bonds.
In any event, the securities will initially form part of the portfolio of eligible assets, however, they may be placed in the market in the future if the conditions of the markets improve.
From this perspective, the structure of the "self-securitisations" is usually fully equivalent to the transactions carried out previously and placed in the market.

These consist of a sale by Intesa Sanpaolo of a portfolio of assets to an SPV established pursuant to Law 130/99 that issues two tranches of notes (one senior and one subordinate constituting the credit enhancement). The Group then subscribes in full for the notes issued by the SPV to fund the purchase of the loans. The senior notes (rated and quoted) are eligible and may be used for the purposes described above.

With regard to the assets to be securitised, on the basis of the assessment conducted by the Group for this purpose, priority is generally given to assets equivalent (or similar) to those already securitised in the past, such as, for example:
- real estate mortgages and mortgage loans of the Group's Network banks;
- ineligible fixed-income securities of Banca Infrastrutture Innovazione e Sviluppo ("BIIS") and Banca IMI;
- ineligible BIIS loans;
- leasing rentals of Leasint;
- mortgage loans of Mediocredito Italiano.

Although they do not qualify as standard securitisations, for the sake of completeness a description of the "self-securitisations" originated during 2008 has been provided in the "Quantitative disclosure" below. These transactions, however, do not contribute to the figures included in the tables, because – as already mentioned – they do not constitute standard securitisations.

Standard securitisations
The securitisations in this category are as follows:
- ***Da Vinci***
  A synthetic securitisation concluded in 2006 by Banca Intesa aimed at covering and actively managing its risk exposure in the aircraft and aeronautic sector (nominal amount of around 650 million dollars). The guarantees supporting the Da Vinci portfolio consisted of 128 aircraft belonging to 22 airline companies from 14 countries. With this transaction, Banca Intesa acquired protection through a credit default swap utilising:
  - for the unfunded portion (84%), a Senior Swap contract underwritten by a leading financer, covering the risk of the Da Vinci risk portfolio with a rating higher than or equivalent to AA;
  - for the funded portion (12%), the Special Purpose Vehicle Da Vinci Synthetic Plc, which issued notes for an overall value of 78.2 million dollars, consisting of three tranches (the first with an A rating for 32.5 million dollars, the second with a BBB rating for 26.1 million dollars and the third with a BB+ rating for 19.6 million dollars) placed with international institutional investors only.

  The structure of this transaction also allowed for the sale at any time of the remaining 4% of the risk, corresponding to around 26 million dollars. The rating agencies used were S&P, Fitch and Moody's.
- ***Vespucci***
  A synthetic securitisation originated by Banca Intesa in 2004 on a portfolio of Asset Backed Securities (85%) and Collateralised Debt Obligations (15%), all with a AAA/Aaa rating for a nominal amount of 2 billion. The underlying portfolio was made up as follows: 36.125% RMBS, 27.625% Consumer ABS, 15% Single tranche of CDOs, 14.875% CMBS and 6.375% Commercial ABS. This was an arbitrage transaction aimed at managing trading in structured credit products and creating a benefit generated from the difference between the return on the underlying portfolio and the cost of the hedge. Banca Intesa acquired protection from the SPE Vespucci Investment 2004-1 Plc. on the portfolio loss over the first 1.2%, up to a maximum 8.2% of the overall loss. The remaining part of the risk was managed by Banca Intesa in unfunded form through credit default swaps. The SPE, in turn, securitised the risks assumed by issuing and selling Notes to institutional investors for a total value of 140 million euro (class A of 80 million euro with a AAA rating, class B of 40 million euro with a AAA rating, and class C of 20 million euro with a AA+ rating). The rating agencies used were S&P and Moody's.
- ***Intesa Sec 3***
  Transaction structured in 2006 by Banca Intesa on a portfolio consisting of 72,570 "performing" residential mortgages, issued predominantly in Northern Italy, to private individuals, and guaranteed by first lien mortgages, for an original book value of 3,644 million euro. This transaction, essentially aimed at reducing the liquidity gap between medium-term loans and short-term deposits, was carried out through the sale of the abovementioned portfolio to the vehicle Intesa Sec. 3 S.r.l., which issued mortgage-backed securities placed with institutional investors. The rating agencies used were S&P and Moody's.
- ***Split 2***
  In 2004, Sanpaolo Leasint sold to the vehicle Split2 Srl, without recourse, the loans deriving from

performing leasing contracts covering real estate, motor vehicles and capital goods for a total amount of 1,805 million euro. To raise the funds needed to purchase the loans, Split2 issued three classes of securities with ratings assigned by all three agencies (Moody's, S&P and Fitch) that were placed in the market, and a Junior class of 18.1 million euro entirely subscribed by Sanpaolo Leasint SpA. The transaction was aimed at diversifying the company's funding sources, temporally matching the underlying funding and loans and freeing up economic and regulatory capital. The rating agencies used were S&P, Fitch and Moody's.

– ***Intesa Lease Sec***
In 2003, Intesa Leasing sold to SPV Intesa Lease Sec SRL, without recourse, a portfolio of loans and associated rights deriving from payments due in relation to a portfolio of financial lease contracts originated by Intesa Leasing for around 1.5 million euro. The purchase of the loans by Intesa Lease Sec SRL was financed through the issue of securities. The transaction was broken down into the following tranches: three Senior classes A1, A2, A3 (amounting respectively to 374, 350 and 665 million euro) with a AAA rating; a Mezzanine class B (84 million euro) with an EIF guarantee and a AAA rating; and an unrated subordinate class C (22.4 million euro). All of the Senior and Mezzanine tranches were offered to institutional investors and the subordinated security was fully subscribed by Intesa Leasing. In 2004, Intesa Leasing sold the C security to Crèdit Suisse First Boston (Europe) Limited. The securitisation was essentially aimed at freeing up regulatory capital at consolidated level and obtaining medium-term funding at a competitive rate, through the issue of securities with a AAA rating. The rating agencies used were S&P, Fitch and Moody's.

– ***Intesa Sec 2***
In 2002, Banca Intesa structured a securitisation on a portfolio consisting of 67,000 "performing" residential mortgages, issued predominantly in Northern Italy to private individuals, and guaranteed by first lien mortgages, for 2,026 million euro. This transaction, essentially aimed at reducing the liquidity gap between medium-term loans and short-term deposits, was carried out through the sale of the abovementioned portfolio to the special purpose vehicle IntesaBci Sec 2 S.r.l., which issued mortgage-backed securities placed with institutional investors in four tranches: class A1 of 405.5 million euro with a AAA rating; class A2 of 1,519.6 million euro with a AAA rating; class B of 40.6 with a AA rating; and class C of 61 million euro with a BBB rating. The rating agencies used were S&P, Fitch and Moody's.

– ***Cr Firenze Mutui***
Carifirenze (consolidated for the first time in 2008) as at the year end had an outstanding securitisation relating to "performing" mortgages, carried out in the fourth quarter of 2002, through the special purpose vehicle CR Firenze Mutui S.r.l.. For this transaction the vehicle issued securities for 521 million euro. The rating agencies used were S&P, Fitch and Moody's.

– ***Intesa Sec Npl***
This transaction, completed in 2001, involved the securitisation of doubtful loans relating to 6,997 positions represented by residential and commercial mortgages originating from the Cariplo loan portfolio, acquired by IntesaBci through the merger at the end of 2000. Around 53% of the loans related to corporate counterparties resident in Italy, around 44% to families and the remaining 3% to other operators. This transaction led to the sale of loans for a gross value of 895 million euro, transferred "without recourse" to the special purpose vehicle IntesaBci Sec NPL, on the basis of a sale price of 516 million euro. The transaction was funded by the special purpose vehicle through the issue of bonds in five tranches with a total nominal value of 525 million euro. The first three (class A of 274 million euro with a AAA rating; class B of 72 million euro with a AA rating; and class C of 20 million euro with an A rating) were subscribed by Morgan Stanley, Crédit Agricole-Indosuez and Caboto and they subsequently placed them with institutional investors. The final two tranches (class D of 118 million euro and class E of 41 million euro both unrated) on the other hand were subscribed by IntesaBci. The rating agencies used were Fitch and Moody's.

– ***Intesa Sec***
During 2000 Intesa carried out a securitisation of mortgages of the Group. The portfolio, placed in the market through the special purpose vehicle Intesa Sec, consisted of over 20,000 performing mortgages granted to private individuals. Against loans with a residual capital of around 993 billion Italian lira purchased at nominal value, the vehicle issued three tranches of rated securities for a value of 977 billion euro that were placed with institutional investors. The fourth unrated tranche of around 16 billion euro was subscribed for directly by the Group. This transaction was part of an operational strategy aimed at improving the return on capital by reinvesting the liquidity generated and using the regulatory capital made available. The rating agencies used were Fitch and Moody's.

Asset Backed Commercial Paper (ABCP) programmes

Pursuant to the IAS/IFRS (SIC 12), Intesa Sanpaolo fully consolidates:
- Romulus Funding Corporation, a company based in the USA that purchases financial assets, represented by loans or securities, with predefined characteristics (eligibility criteria), originated by the Bank's customers, financing the purchases by issuing Asset Backed Commercial Paper;
- Duomo Funding PLC, an entity that operates in a similar manner to Romulus Funding Plc., but is limited to the European market, and is financed through funding agreements with Romulus.

The total assets of the vehicle Romulus include loans to Duomo of 1,091 million euro. The vehicle's securities portfolio, which as at 30 June 2008 consisted of securities available for sale and securities classified under the loans category, was reclassified, for the securities available for sale portion, in accordance with the amendments introduced by IAS 39. As at 31 December 2008 these securities were reclassified to the loan securities category for a value of 533 million euro, valued at amortised cost. The fair value of these securities as at the same date was 504 million euro. The accumulated write-down on the securities at the time of the reclassification was 45 million euro (19 million euro as at 31 December 2007) and was allocated to a specific Shareholders' Equity reserve. The vehicle's assets also include liquidity and other assets amounting to 4 million euro.

The total assets of Duomo are made up of loans to Intesa Sanpaolo for 529 million euro, as collateral for an intragroup protection sale on the risk of a leading insurance company, of loans to the banking subsidiary Intesa Sanpaolo Bank Ireland for 150 million euro, of loan receivable debt securities for 381 million euro (fair value of the same amount as at 31 December), of loans to customers for 29 million euro, and of liquidity and other assets for 1 million euro.

The total assets of the SPEs referred to above represented 0.4% of the Group's total consolidated assets. The portfolio of assets held by the two vehicles essentially has the following characteristics:
- distribution by geographical area: Italy 47.9%, Europe 28.9%, and USA 23.2%;
- distribution by rating: Aaa 12.3%, Aa2 42.4%, Baa2 0.2%, A1 0.1%, A2 0.3%, and unrated 44.7%.

It should be noted that even though part of the eligible assets (approximately 45%) in the portfolios of the Romulus and Duomo vehicles are not supported by an external rating, they are nevertheless of a sufficient quality to enable the commercial paper issued by Romulus to maintain the A-1+/P-1 ratings. More specifically, the percentage of assets with a Aaa and Aa rating increased from around 46% in June 2008 to around 55% at the end of December 2008. Even though the rating of some of the securities was downgraded, the average quality of the portfolio was maintained through the acquisition of assets with high credit quality.
The securities classified in the loan portfolio under discussion are made up as follows: 46% of 2002 vintage, 8% of 2003 vintage, and the remaining 46% of 2007 vintage.

"Third party" securitisations

The Intesa Sanpaolo Group also operates in the securitisations market as an investor, although the volume of the existing investments, both banking and trading, represents a very small part of the Bank's assets. These operations relate, on the one hand, to the diversification of the risk profile of the managed portfolio and the maximisation of the risk-return target, and on the other hand to the activities involving securities representing public loans, carried out by BIIS, a division of the Intesa Sanpaolo Group, specialising in Public Finance.
With reference to the first category, the positions currently held derive from the investments made in the early part of the current decade on the basis of a typical carry-trade approach aimed at generating appreciable returns on the investment of excess capital in assets deemed to have good credit quality. These positions, represented by investments in CDOs, have in any case been significantly and continuously reduced since 2003. Conversely, the Group has never applied the Originate-to-Distribute model with reference to these products.
The second category concerns purchases of portfolios of receivables due to third parties from public authorities, primarily loans to the national health system. These portfolios are purchased by vehicles whose securities are subscribed by BIIS. For the health receivables, the completion of the securitisation is however subject to the issue of a guarantee by the competent regional authority (delegated payment), thanks to which the risk relating to the portfolio is transformed into a transaction with recourse against the regional authority, which usually has a high credit rating.

The Group also has a significant presence in the Italian market as an arranger, thanks to the specific expertise of the banking subsidiary Banca IMI. These operations usually only involve advisory services for the structuring of the transaction and the placement of the securities in the market. In certain circumstances, however, the originator may also request bridge financing for the vehicle, during the formation of the portfolio and/or in view of the market placement. These exposures assumed in the form of term loans are however characterised by a "recourse" against the originator, for example through the conclusion of total return swap agreements under which the performances of the portfolio and the portfolio itself revert back to the originator if the planned securitisation has not been completed by the time the loan has expired. Consequently, these transactions essentially constitute loans to individual counterparties that are, however, mitigated by the guarantee represented by the portfolio being placed.

Securitisations: methods for calculating the risk weighted exposures

Intesa Sanpaolo applies the standardised approach for the calculation of the capital requirement to cover the credit risk relating to the securitisations.

Securitisations: accounting standards

The rules for the recognition of the loan securitisations, governed by the IAS/IFRS in the IAS 39 document (paragraphs relating to derecognition), are broken down as follows:

In the event of derecognition

When all the risks and benefits from the ownership are effectively transferred, the transferor (originator) shall derecognise the transferred assets from its financial statements and record offsetting entries for the consideration received and any profit and loss from the sale.
If the consideration received is not made up entirely of an amount of available cash, but consists partly of financial assets, these must initially be recognised at fair value. Their fair value must also be used to calculate the profit or loss from the sale.
Should derecognition be permitted, if only a part of the cash flows that derive from a loan is sold, the carrying value of the part maintained is recognised at fair value as at the date of the sale. Any arrangement costs incurred by the originator are recorded in the income statement when sustained as they are not attributable to any financial assets appearing in the financial statements.
The assets sold are derecognised and the profit or loss from the sale, together with any receivable relating to the sale consideration, are recorded in the financial statements as at the date of the completion of the sale. More generally, the entry date for the transaction in the financial statements depends on the contractual clauses. If the cash flows from the assets sold are transferred after the execution of the agreement, for example when there are suspending clauses, the assets are derecognised and the proceeds of the sale are recognised at the time of the transfer of the cash flows.

In the event of no derecognition

If the requirements established by IAS 39 are met and the securitisation does not therefore qualify for derecognition, the originator records the loan as an offsetting entry for the consideration received.
A common example is when the originator sells a loan portfolio to the special purpose vehicle, but subscribes for the junior class in full (and therefore for the majority of the risks and benefits of the underlying assets) and/or provides a collateral for the transaction.
In this case, the arrangement costs directly incurred by the originator are recorded in the income statement when they are sustained. If there is no derecognition, the loans securitised continue to be recorded in the originator's financial statements.
Subsequently, the originator must recognise any income from the asset transferred and any charges incurred on the liability recorded without offsetting any of the costs and revenues.
The loan portfolio transferred continues to be classified in the loan category that it originally formed part of and, consequently, is measured at amortised cost and valued (individually or on a collective basis) as if the transaction had never taken place.

It should also be noted that, for the securitisations prior to 1 January 2004 (Intesa Sec, Intesa Sec 2, Intesa Sec Npl and Intesa Lease Sec.), the Group made use of the exemption from compliance with the IAS/IFRS requirements permitted by IFRS 1 on first-time adoption and, consequently, the assets or liabilities sold and derecognised on the basis of the previous accounting standards have not been recorded in the financial statements. For the transactions conducted after that date the provisions of IAS 39 on the derecognition of financial assets and liabilities have been applied.

Synthetic securitisations

Synthetic securitisations are usually recognised as follows.
The loans subject to synthetic securitisation continue to be recorded in the assets of the bank (protection buyer) that has retained full ownership of them. The premium paid by the bank to the protection seller for the purchase of the protection Credit Default Swap is recorded under commission expense in the income statement, where the premiums relating to the credit derivatives associated with the guarantees received are recorded. The financial guarantee received from the protection seller also contributes to the determination of the adjustments made to the loans subject to the guarantee (overall and, where applicable, specific).

Any deposit liabilities received by the bank, as a result of the issue of notes by vehicles that sell portions of the risk acquired from the protection seller in the market through the issue of notes, are recorded under payables in the balance sheet liabilities.

Quantitative disclosure

Securitisations: amount of own and third party securitisation positions

(in millions of euro)

	On-balance sheet exposures						Guarantees given						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	exposure		exposure		exposure		exposure		exposure		exposure		exposure		exposure		exposure	
	gross	net	gross	net	gross	net	gross	net	gross	net	gross	net	gross	net	gross	net	gross	net
A. Originated underlying assets	**241**	**230**	**146**	**133**	**116**	**107**	**13**	**13**	**-**	**-**	**19**	**19**	**-**	**-**	**-**	**-**	**-**	**-**
a) Non-performing	-	-	*63*	*54*	*22*	*16*	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	*241*	*230*	*83*	*79*	*94*	*91*	*13*	*13*	-	-	*19*	*19*	-	-	-	-	-	-
B. Third party underlying assets (*)	**5,475**	**5,135**	**749**	**664**	**67**	**65**	**-**	**-**	**70**	**70**	**2**	**2**	**-**	**-**	**774**	**774**	**-**	**-**
a) Non-performing	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
b) Other	*5,475*	*5,135*	*749*	*664*	*67*	*65*	-	-	*70*	*70*	*2*	*2*	-	-	*774*	*774*	-	-
TOTAL	**5,716**	**5,365**	**895**	**797**	**183**	**172**	**13**	**13**	**70**	**70**	**21**	**21**	**-**	**-**	**774**	**774**	**-**	**-**

(*) Included for the sake of completeness are the Asset Backed Commercial Paper (ABCP) programmes of Romulus and Duomo details of which are provided in the tables below relating to the third party securitisations.

Securitisations: breakdown of on-balance sheet exposures deriving from main own securitisations by type of securitised asset and by type of exposure

(in millions of euro)

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A. Fully derecognised	**42**	**-**	**59**	**-8**	**62**	**-9**
A.1 Intesa Lease Sec						
- performing leasing contracts	*25*	-	-	-	-	-
A.2 Intesa Sec 2						
- performing residential mortgages	*15*	-	*5*	-	*31*	-
A.3 Intesa Sec						
- performing mortgages	-	-	-	-	*8*	*-1*
A.4 Intesa Sec Npl						
- doubtful mortgages	-	-	*54*	*-8*	*16*	*-6*
A.5 Cr Firenze Mutui						
- performing mortgages	*2*	-	-	-	*7*	*-2*
B. Partly derecognised	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	**188**	**-11**	**74**	**-5**	**45**	**-**
C.1 Intesa Sec 3						
- performing residential mortgages	*165*	*-7*	-	-	*27*	-
C.2 Da Vinci						
- Loans to the aircraft sector	*2*	*-4*	*1*	*-1*	-	-
C.3 Vespucci						
- Asset backed securities and collateralised debt obligations	-	-	*70*	*-4*	-	-
C.4 Split 2						
- performing leasing contracts	*21*	-	*3*	-	*18*	-
TOTAL	**230**	**-11**	**133**	**-13**	**107**	**-9**

Securitisations: breakdown of off-balance sheet exposures deriving from main own securitisations by type of securitised asset and by type of exposure

(in millions of euro)

	Guarantees given						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A. Fully derecognised	**13**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
A.1 Intesa Sec												
- performing mortgages	*13*	-	-	-	-	-	-	-	-	-	-	-
A.2 Intesa Sec Npl												
- doubtful mortgages	-	-	-	-	-	-	-	-	-	-	-	-
B. Partly derecognised	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C. Not derecognised	**-**	**-**	**-**	**-**	**19**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
C.1 Da Vinci												
- loans to the aircraft and aeronautical sector	-	-	-	-	*19*	-	-	-	-	-	-	-
TOTAL	**13**	**-**	**-**	**-**	**19**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

Securitisations: breakdown of on-balance sheet exposures deriving from main third party securitisations by type of securitised asset and by type of exposure

(in millions of euro)

	On-balance sheet exposures					
	Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A.1 AYT Cedulas						
- public sector financing	*295*	*-2*	-	-	-	-
A.2 Capital Mortgages						
- residential mortgages	*59*	*-1*	*4*	-	-	-
A.3 Cartesio						
- loans	*122*	-	-	-	-	-
A.4 Cordusio RMBS Securitisation						
- residential mortgages	*57*	-	*11*	*-2*	-	-
A.5 CPG tranche AEM						
- public utilities	*52*	-	-	-	-	-
A.6 D'Annunzio						
- receivables	*185*	-	-	-	-	-
A.7 Duchess (*)						
- securities	*119*	*-59*	-	-	-	-
A.8 Euterpe						
- amounts due from tax authorities - utilities	*145*	-	-	-	-	-
A.9 Fondo Immobili Pubblici						
- public real estate assets	*84*	*-2*	*173*	*-6*	-	-
A.10 Geldilux						
- loans	*235*	*-3*	-	-	-	-
A.11 Posillipo Finance						
- securities	*199*	-	-	-	-	-
A.12 Rhodium (*)						
- securities	*74*	*-12*	-	-	-	-
A.13 Santander Hipotecario						
- residential mortgages	*51*	-	-	-	-	-
A.14 Soc. Cart. Crediti INPS						
- social security benefits	*495*	*-1*	-	-	-	-
A.15 Smstr (*)						
- securities	*57*	*-35*	-	-	-	-
A.16 Società di Cartolarizzazione Italiana Crediti 1						
- personal loans	*205*	-	-	-	-	-
A.17 Stone tower (*)						
- securities	*55*	*-3*	-	-	-	-
A.18 Duomo Portfolio	*489*	-	*3*	-	-	-
A.19 Romulus Portfolio	*398*	*-33*	*4*	-	-	-
A.20 Investment grade ABS portfolio subject to unitary management	*101*	-	-	-	-	-
A.21 Residual portfolio divided in 406 securities	1,658	-189 (**)	469	-77 (***)	65	-2
TOTAL	**5,135**	**-340**	**664**	**-85**	**65**	**-2**

(*) Position included in packages, whose credit risk is entirely hedged by a specific credit default swap (CDS). The adjustment highlighted was, therefore, practically identical to the positive fair value of the derivative.

(**) Of which -9 million euro related to securities included in packages.

(***) Of which -42 million euro related to securities included in packages.

Securitisations: breakdown of off-balance sheet exposures deriving from main third party securitisations by type of securitised asset and by type of exposure

(in millions of euro)

	Guarantees given						Credit lines					
	Senior		Mezzanine		Junior		Senior		Mezzanine		Junior	
	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries	Book value	Adjust./ recoveries
A.1 Duomo												
- Asset Backed Securities and Collateralised debt obligations	-	-	-	-	-	-	-	-	-	-	-	-
A.2 Manzoni												
- Asset Backed Securities	-	-	-	-	*2*	-	-	-	-	-	-	-
A.3 Romulus												
- Asset Backed Securities and Collateralised debt obligations	-	-	*70*	-	-	-	-	-	*774*	-	-	-
Total	**-**	**-**	**70**	**-**	**2**	**-**	**-**	**-**	**774**	**-**	**-**	**-**

Securitisations: weighted amounts of securitisation positions based on risk weight bands - Standardised approach

(in millions of euro)

Risk weight bands	Originated securitisations	Third-party securitisations
Risk weight 20%	193	515
Risk weight 35% (*)	165	-
Risk weight 50%	-	433
Risk weight 100%	1	564
Risk weight 150% (*)	168	-
Risk weight 350%	-	133
Risk weight 1250% - with rating	85	-
Risk weight 1250% - without rating	522	120
Look-through - second loss in ABCP	-	-
Look-through - other	-	-
Deducted from regulatory capital	-	-
Total	**1,134**	**1,765**

(*) Weights applied to the securitised assets, in accordance with the regulations in the event of failure to pass the cap test.

Securitisations carried out during the period

During 2008, the Group, as originator, carried out three transactions in which it fully repurchased the securities issued by the vehicle used for the securitisation (self-securitisation). These involved the transactions carried out through the vehicles Adriano Finance, Adriano Finance 2 and SPQR II. For this type of transaction, as explained below, given that the securities in question are not sold definitively to parties outside the Group, in accordance with the IAS/IFRS the conditions are not met for the derecognition of the underlying loans with respect to which the Group continues to maintain all the risks and benefits and that are, therefore, still recorded under the consolidated balance sheet assets. It should be noted that Carifirenze, acquired in 2008, has an outstanding securitisation carried out in 2002 through the vehicle CR Firenze Mutui S.r.l. (described in brief in the Qualitative disclosure above).

Adriano Finance

On 4 August 2008, the securitisation was completed of a portfolio of performing residential mortgages through the vehicle Adriano Finance.
The structuring of the transaction was performed by Intesa Sanpaolo and Banca IMI as Arrangers.
Adriano Finance issued RMBS notes at par (Adriano Finance F/R Notes due December 2055) for a total amount of 7,998 million euro, made up as follows:

– Class A for an amount of 7,558 million euro (senior tranche);
– Class B for an amount of 440 million euro (junior tranche).

The Class A notes (with an expected average lifetime of 4.9 years), eligible for use for ECB refinancing operations, are listed on the Luxembourg Stock Exchange and have obtained a AAA rating from the Standard & Poor's and Moody's agencies. The Class B notes on the other hand are unrated. Both classes of

notes were fully underwritten by Intesa Sanpaolo. The transaction's financial structure provides for the half-yearly payment of interest on 5 February and 5 August of each year. The first coupon was paid on 5 February 2009, whereas the repayment of the principal will start, after 18 months from the issue, from the payment date of 5 February 2010. The Bank also granted the vehicle a subordinated loan with limited recourse (with the same maturity date as the legal maturity for the notes) for an amount of 50 million euro that was used on the date of the issue of the notes to establish the Cash Reserve required by the Rating Agencies.
Given that the securities in question have not been sold definitively to parties outside the Group, in accordance with the IAS/IFRS the conditions have not been met for the derecognition of the underlying loans with respect to which Group continues to maintain all the risks and benefits and that are, therefore, still recorded under the consolidated balance sheet assets. On 18 December 2008, a second securitisation was completed, again through Adriano Finance, of a portfolio of performing residential mortgages. The structuring of the transaction was performed by Intesa Sanpaolo as Arranger. Adriano Finance issued RMBS notes with a price corresponding to 100% of their nominal amount (Adriano Finance F/R Notes due December 2058) for a total amount of 5,679 million euro, made up as follows:

- Class A for an amount of 5,281 million euro (senior tranche);
- Class B for an amount of 398 million euro (junior tranche).

For the Class A notes, with an average expected lifetime of 4.9 years, quoted on the Luxembourg Stock Exchange and assigned a AAA rating by Standard & Poor's, eligibility for use was obtained from the Luxembourg central bank for ECB financing operations. The Class B notes on the other hand are unrated.
Both classes of notes were fully underwritten by Intesa Sanpaolo.
The transaction's financial structure provides for the half-yearly payment of interest on 31 January and 31 July of each year. The first coupon will be paid on 31 July 2009, whereas the repayment of the principal will start, after at least 18 months from the issue, from the payment date of 31 July 2010. The Bank also granted the vehicle a subordinated loan with limited recourse (with the same maturity date as the legal maturity for the notes) for an amount of 50 million euro that was used on the date of the issue of the notes to establish the Cash Reserve required by Standard & Poor's.
Also in this case, given that the securities in question have not been sold definitively to parties outside the Group, in accordance with the IAS/IFRS the conditions have not been met for the derecognition of the underlying loans with respect to which the Group continues to maintain all the risks and benefits and that are, therefore, still recorded under the consolidated balance sheet assets.

Adriano Finance 2

On 31 December 2008, the securitisation was completed of a portfolio of performing residential mortgages through the vehicle Adriano Finance 2. The structuring of the transaction was performed by Intesa Sanpaolo and Banca IMI as Arrangers.
Adriano Finance 2 issued RMBS notes at a price corresponding to 100% of their nominal amount (Adriano Finance F/R Notes due June 2061) for a total amount of 13,050 million euro, made up as follows:

- Class A for an amount of 12,174 million euro (senior tranche);
- Class B for an amount of 876 million euro (junior tranche).

For the Class A notes, with an average expected lifetime of 5 years, quoted on the Luxembourg Stock Exchange and assigned a AAA rating by Fitch, eligibility for use was obtained from the Luxembourg central bank for ECB financing operations. The Class B notes are unrated.
The transaction's financial structure provides for the half-yearly payment of interest on 29 January and 29 July of each year. The first coupon will be paid on 29 July 2009, whereas the repayment of the principal will start, after at least 18 months from the issue, from the payment date of 29 July 2010.
The Bank also granted the vehicle a subordinated loan with limited recourse (with the same maturity date as the legal maturity for the notes) for an amount of 150 million euro that was used on the date of the issue of the notes to establish the Cash Reserve required by Fitch.
Given that the securities in question have not been sold definitively to parties outside the Group, in accordance with the IAS/IFRS the conditions have not been met for the derecognition of the underlying loans with respect to which Group continues to maintain all the risks and benefits and that are, therefore, still recorded under the consolidated balance sheet assets.

SPQRII

In order to reduce the overall cost of funding and increase the level of liquidity of its assets, in July 2008 Banca IMI completed a securitisation of securities recorded under financial assets held for trading, aimed at making the portfolio sold more effective for the purposes of funding from the European Central Bank.

This transaction included the sale without recourse to SPQR II S.r.l. (a multi-segment Special Purpose Vehicle regulated by Law 130/99, already used for a similar transaction originated by the former Banca OPI, see paragraph below), of a portfolio of bonds issued by Italian and foreign banks, insurance companies, corporates and securitisation vehicles, for a market value of around 747.8 million euro.
SPQR II in turn issued:

- Class A senior notes for 696 million euro, with an A rating (Fitch Ratings) and quoted on the Luxembourg stock exchange;
- Class D junior notes for 82 million euro, without a rating and unquoted.

Both classes were subscribed for by Banca IMI at nominal value, and because the Company had consequently substantially maintained all the risks and benefits attached to the transferred assets, the transaction has not been derecognised.
From an operational perspective, the Senior class was set aside with the European Central Bank by means of repurchase agreements carried out through the Parent Company Intesa Sanpaolo.
In this transaction, Banca IMI acted as originator, sole arranger, lead manager and swap counterparty for the hedging. It also supported the credit enhancement of the overall structure, through a subordinated loan agreement commitment for a maximum amount of 100 million euro, which could be requested by SPQR II S.r.l. when certain conditions were met. Banca IMI also undertook the role of servicer.
On 23 December 2008, Banca Infrastrutture Innovazione e Sviluppo (BIIS) carried out a securitisation of one of its portfolios for 1,330 million euro, consisting of bonds issued by Italian local authorities (municipal, provincial and regional) through the vehicle SPQR II, as part of the prudential enhancement of the already broad availability of the Intesa Sanpaolo Group's eligible assets for the Central Banks.
The structuring of the transaction was performed by Banca IMI as Arranger. Banca IMI was also responsible for the offer of the securities, as Lead Manager and Book Runner. The transaction consists of one single senior tranche (class A) of 1,238 million euro, with an average lifetime of around 9.3 years, listed on the Luxembourg Stock Exchange and rated A by Fitch Ratings, and one junior tranche (class D) of 92 million euro.
The securities were issued at a price corresponding to 100% of their nominal amount and they will have a floating rate coupon based on the 6 month Euribor rate.
Both classes of securities were purchased in full by BIIS.
Given that the securities in question have not been sold definitively to parties outside the Group, in accordance with the IAS/IFRS the conditions have not been met for the derecognition of the underlying loans with respect to which Group continues to maintain all the risks and benefits and that are, therefore, still recorded under the consolidated balance sheet assets.

In order reduce the cost of funding and increase asset liquidity, at the end of 2007 Banca OPI (now BIIS) finalised a securitisation exclusively aimed at rendering a securities portfolio eligible that could not, in and of itself, have been used for European Central Bank refinancing operations.
As part of the transaction, the Bank sold to a Special Purpose Vehicle a portfolio of debentures issued by Italian public entities, of a total nominal value of approximately 2 billion euro, which, since such debentures are not quoted on a European regulated market may not be used for refinancing with the Central Bank. The Special Purpose Vehicle, in turn, issued Senior bonds which are rated and listed, and Junior bonds. Both types of securities were purchased by Banca OPI, which destined the Senior class as collateral for its funding with the European Central Bank, via transactions completed through the Parent Company Intesa Sanpaolo. This transaction did not result in derecognition, as Banca OPI substantially maintained all the risks and benefits attached to the transferred assets.

Table 11 – Market risks: disclosures for banks using the internal models approach (IMA) for position risk, foreign exchange risk and commodity risk

Qualitative disclosure

Characteristics of the models used

The analysis of market risk profiles relative to the trading book uses various quantitative indicators and VaR is the most important. Since VaR is a synthetic indicator which does not fully identify all types of potential loss, risk management has been enriched with other measures, in particular simulation measures for the quantification of risks from illiquid parameters (dividends, correlation, ABS, hedge funds).
VaR estimates are calculated daily based on simulations of historical time-series, a 99% confidence level and 1-day holding period.

Description of stress testing applied to the portfolio

Stress tests measure the value changes of instruments or portfolios due to changes in risk factors of unexpected intensity and correlation, or extreme events, as well as changes representative of expectations of the future evolution of market variables. Stress tests are applied weekly to market risk exposures, typically adopting scenarios based on historical trends recorded by risk factors, for the purpose of identifying past worst case scenarios, or defining variation grids of risk factors to highlight the direction and non-linearity of trading strategies.

The impact on the income statement of selected scenarios relating to the evolution of stock prices, interest rates, credit spreads and foreign exchange rates as at the end of December are summarised in the following table.

(in millions of euro)

	Equity		Interest rates		Credit spreads		Foreign Exchange rates	
	volatility +10% and prices -5%	volatility -10% and prices +5%	-25bp	+25bp	-25bp	+25bp	-10%	+10%
Total	-5	2	10	-12	43	-43	2	1
of which SCP	-	-	-	-	*12*	*-12*	-	-

In particular:

- for positions on stock markets, a "bearish" scenario, that is, a 5% fall in stock prices with a simultaneous 10% increase in volatility would have led to a 5 million euro loss; a "bullish" scenario, that is, a 5% rise in stock prices with a simultaneous 10% decrease in volatility, would have led to a 2 million euro gain;
- for exposures to interest rates, a parallel +25 basis point shift in the yield curve would have led to a 12 million euro loss; whereas a parallel -25 basis point shift would have led to a 10 million euro gain;
- for exposures affected by changes in credit spreads, a 25 basis point widening in spreads would lead to a 43 million euro loss, of which 12 million euro attributable to structured credit products (SCP);

lastly, with reference to exposures on the EUR/USD market, the portfolio's position was basically protected from both devaluation and revaluation of the US Dollar due to the effect of option structures aimed at protecting from directional movements.

Description of the approach used for backtesting and/or validating the accuracy and consistency of the internal models and modelling processes

The effectiveness of the VaR calculation methods must be monitored daily via backtesting which, as concerns regulatory backtesting, compares:

– the daily estimates of value at risk;
– the daily profits/losses based on backtesting which are determined using actual daily profits and losses achieved by individual desks, net of components which are not considered in backtesting such as commissions and intraday activities.

Backtesting allows verification of the model's capability of correctly seizing, from a statistical viewpoint, the variability in the daily valuation of trading positions, covering an observation period of one year (approximately 250 estimates). Any critical situations relative to the adequacy of the Internal Model are represented by situations in which daily profits/losses based on backtesting highlight more than three occasions, in the year of observation, in which the daily loss is higher than the value at risk estimate.

Scope of acceptance by the Bank of Italy regarding the use of the internal models approach

For certain of the abovementioned risk factors, the Supervisory authority validated the internal models for the regulatory measurement of capital absorption of both Intesa Sanpaolo (internal model extended during 2007 to the books of the former SANPAOLO IMI Finance Department) and Banca IMI (the internal model, previously validated for the former Banca Caboto component, was extended, in the first quarter of 2008, to the former Banca IMI portfolios).

In particular, the validated risk profiles for market risks are: (i) general on debt securities and general/specific on equities for Intesa Sanpaolo and Banca IMI, (ii) position risk on quotas of UCITS solely with reference to the quotas in CPPI for Banca IMI, and (iii) optional risk and specific risk for the CDS portfolio for Intesa Sanpaolo.

Description of the level of conformity with the rules governing the systems and controls aimed at ensuring prudent and reliable valuations of the positions included in the regulatory trading book

The process of certification of the models and market parameters:

As part of its overall monitoring of the controls on the individual transactions dealt with by the IT Systems Department (IT modules) and the Operating Systems Department (back office controls), the Risk Management Department regulates and certifies the models used for the valuation processes and the market parameters identified to feed them. If the valuation systems are found to be incapable of providing reliable valuations, the Risk Management Department directly evaluates the financial instrument using internal processes.

The main phases are the:

Identification, certification and treatment of market data and the sources for measurements

The fair value calculation process and the need to distinguish between products which may be measured on the basis of effective market quotes rather than through the application of comparable or mark-to-model approaches, highlight the need to establish univocal principles in the determination of market parameters. To this end the Market Data Reference Guide – a document prepared and updated by the Risk Management Department on the basis of the Group's Internal Regulations approved by the Administrative bodies of the Parent Company and Group Companies – establishes the processes necessary to identify market parameters and the means according to which such parameters must be extracted and used. Such market data may be both elementary and derived data. In particular, for each reference category (asset class), the regulation determines the relative requisites, as well as the cut-off and certification means. The document defines the collection of the contribution sources deemed adequate for the assessment of financial instruments. Adequacy is guaranteed by the respect of reference requirements, which are based on comparability, availability and transparency of the data, or the possibility of extracting the figure from one or more info providing systems, of measuring the contribution bid-ask, and lastly, for OTC products, of verifying the comparability of the contribution sources. For each market parameter category the cut-off time is determined univocally, with reference to the timing of definition of the parameter, the reference bid/ask side and the number of contributions necessary to verify the price. The use of all market parameters in Intesa Sanpaolo is subordinated to their certification (Validation Process) by the Risk

Management Department (RMD), in terms of specific controls (verifying the integrity of data contained on the proprietary platform with respect to the source of contribution), reliability tests (consistency of each single figure with similar or comparable figures) and verification of concrete application means.

Certification of pricing models and Model Risk Assessment

This phase is principally aimed at verifying the consistency and the adherence of the various measurement techniques used by the Bank with current market practice, at highlighting any critical aspects in the pricing models used and at determining any adjustments necessary for valuation. The validation process is particularly important at the start of activities in a new financial instrument which requires the development of further pricing models, and when the Bank decides to use a new model to measure payoffs previously managed with models deemed to be less adequate. In general, all models used by the Bank for the assessment must be submitted to an internal certification process which involves various competent structures. The possibility of independent certification issued by high standing financial service companies is also provided for in highly-complex cases and/or in presence of market turbulence (so-called market dislocation). For example, Intesa Sanpaolo used a similar validation for CDO exposures. The new measurement models entail not only an in-depth analysis of financial aspects but also a full understanding of numerical aspects, replicating, where deemed necessary, the pricing libraries of Front Office systems, after the analysis of available literature and the independent derivation of the necessary analytical results, considering also numerical implementation aspects. Moreover, the types of payoff connected to the model are analysed in detail together with the pertinent figures (verifying presence, liquidity and frequency of update of contributions), as well as the means of calibration chosen. In fact, one of the fundamental requirements for the certification of a pricing model is its capability of replicating available market prices, optimising its internal parameters (or meta-data) to capture to the best information provided by quoted instruments (calibration procedure). Once the quality of repricing of the elementary instruments selected for calibration is certified, the influence of the model's parameters (parameters which are not quoted or observable on the markets) on the pricing of complex instruments is analysed. Lastly, where possible, market tests are performed comparing the prices of complex financial instruments obtained from the model with the available quotes. If the analysis described above does not identify any evident criticalities, the model is deemed to be validated and may be used for official measurements. Conversely, if the analysis highlights limits or alerts for a specific pricing model which are not so severe as to deem analytical tools used inadequate, the Risk Management Department performs further analyses to determine adjustments due to the so-called "model risk".

Monitoring consistency of pricing models over time

Once a pricing model for complex financial instruments is certified and operational, it is necessary to periodically monitor its adherence to the market in order to discover any gaps promptly and start the necessary verifications and interventions.

- *Repricing of elementary instruments contributed*
  Adherence to the market of a calibrated pricing model is controlled by verifying that the model effectively reproduces all market prices deemed to be relevant and sufficiently liquid. With particular reference to interest rate derivatives, an automatic repricing system for elementary financial instruments is also operational in the Bank's Front Office systems, which allows the systematic verification of any gaps between the models and the market and their possible impact on the risk positions in the books. Where significant gaps arise and the price of a given elementary instrument falls outside the market's bid-ask quotes, the analysis of the impact on the risk positions of the respective trading portfolios is performed and the adjustment to be applied to the valuations of the respective portfolios is quantified.
- *Comparison with benchmarks*
  The monitoring methodology described above is further strengthened by extensive benchmarking of data used. In particular, access to the services of a qualified outside provider (Markit) give detailed information on the parameters contributed by primary market counterparties and referred to interest rate instruments (cap/floor, European and Bermuda swaption, CMS), equities (options on indices and on single stocks) and for CDS. Such information is far richer than that normally available from standard contribution sources, for example in terms of maturities, underlying assets and strikes. Any significant gaps are quantified with respect to the average bid-ask spread supplied by the outside provider and therefore treated as in the case of repricing of elementary instruments contributed. The possibility of extending the comparison with benchmarks to other instruments or underlying assets is constantly monitored.

Information on valuation models which are concretely used for measurement of financial instruments

I. Pricing model for non-contributed securities

Pricing of non-contributed securities (that is, securities without official listings expressed by an active market) occurs through the use of an appropriate credit spread test (in application of the comparable approach): given a non-contributed security, the level of the credit spread is estimated starting from contributed and liquid financial instruments with similar characteristics. The hierarchy of sources which are used to estimate the level of the credit spread are the following:

- contributed and liquid securities (benchmark) of the same issuer;
- Credit Default Swaps on the same reference entity;
- contributed and liquid securities of an issuer with the same rating and belonging to the same sector.

In any case the different seniority of the security is considered to be priced relatively to the issuer's debt structure.

II. Models for pricing interest rate, foreign exchange, equity and inflation derivatives

Interest rate, foreign exchange, equity and inflation derivatives, if not traded on regulated markets, are Over The Counter (OTC) instruments, which are bilaterally exchanged with market counterparties and are valued through specific pricing models, fed by input parameters (such as yield, foreign exchange and volatility curves) observed on the market and subject to the monitoring processes illustrated above. In terms of fair value hierarchy, prices determined in this way fall in the Comparable Approach category.

The table below illustrates the main models used to price OTC derivatives on the basis of the category of underlying asset.

Category of Underlying Asset	Pricing Model Used	Main Models Input parameters
Interest rate	Net Present Value, Black, SABR, Libor Market Model, Hull-White at 1 and 2 factors, Mixture of Hull-White at 1 and 2 factors, Bivariate lognormal, Rendistato	Interest rate curves (considering: deposits, FRA, Futures, OIS and swap), cap/floor and swaption volatility, correlation between interest rates
Foreign exchange rate	Garman-Kohlhagen, Lognormal with Uncertain Volatility	Interest rate curves, spot and forward FX, FX volatility
Equity	Net present Value, Black-Scholes Generalised, Heston	Underlying asset spot rate, interest rate curves, expected dividends, underlying asset volatility, correlation between underlying assets
Inflation	Bifactorial	Nominal interest rate curves, inflation rate curves, interest rate volatility, inflation rate volatility, seasonality ratios of consumer price index

Moreover, the determination of fair value must consider not only market factors and the nature of the contract (maturity, type of contract, etc.), but also the credit quality of the counterparty. In particular:

- mark-to-market, i.e. pricing using risk-free curves;
- fair value, which considers counterparty credit risk and future exposures of the contract.

The difference between fair value and mark-to-market – so-called Credit Risk Adjustment (CRA) – is the discounted value of the expected future loss, considering that the future exposure has a volatility related to that of the markets. The application of this methodology occurs as follows:

- in the case of positive net present exposure, the CRA is calculated starting from the latter, from market spreads and in function of the average residual life of the contract;
- in the case of net present exposure close to zero or negative, CRA is determined assuming that the future exposure may be estimated through Basel 2 add-on factors.

III. Model for pricing structured credit products

Regarding ABS, if significant prices are not available (level 1, effective market quotes), valuation techniques consider parameters which may be presumed from the market (level 2, comparable approach).

Spreads are presumed from new issuers and/or collected from the major investment banks, verifying

the consistency of such valuations with the prices presumed from the market (level 1).
In addition to these quantitative controls, the definition of the price and its verification is further strengthened by a qualitative analysis relative to the performance of the underlying asset presumed from periodic investor reports.
Lastly, prices calculated in this way are subject to backtesting with actual sale prices to verify their consistency with the levels expressed by the market.

With reference to complex credit derivatives (CDOs), in the light of the phenomena of market dislocation of financial and credit markets, Intesa Sanpaolo recently dedicated particular attention to pricing methodologies, and prepared a new Fair Value Policy that was applied starting from the 2007 financial statements. In 2008, no material changes were made to the Policy, although the ongoing improvement of input treatment continued, in order to ensure consistent adherence to the market figures. At the same time the Waterfall assessment was added to the valuation framework. This determines the handling of the priorities for payments and its main impact involves the establishment of the priority for the repayment of the various tranches (Notes) starting from the Supersenior (paydown), if the structures involved (Cashflow CDOs) fail the Overcollateralisation and Interest Coverage Tests.
The Fair Value Policy also defined specific policies relative to inputs necessary for valuations.

Regarding CDO pricing, Intesa Sanpaolo uses a quantitative model which estimates losses on collateral with a simulation of the relevant cash flows which uses copula functions.
The most significant factors considered in the simulation – for each collateral – are the risk-neutral probability of default derived from market spreads, recovery rates, the correlation between the value of collaterals present in the structure and the expected residual life of the contract.
For spreads, the valuation process incorporates, as promptly as possible, all market inputs: synthetic indices are used such as ABX, consensus parameters calculated by multicontribution platforms, market spread estimates made available by primary dealers.
The Market Data Reference Guide, which sets out credit spread contribution sources, was moreover integrated with specific policies for the other inputs such as correlations and recovery rates.
For specific types of collateral, such as trust preferred securities, the probability of default is estimated using the Expected Default Frequency from Moody's - KMV.

In order to incorporate high market dislocation and intense market illiquidity phenomena in valuations, a series of corrections have been prepared for valuations referred to the main input parameters; in particular:

- stress of recovery rates: expected recovery rates on the assets held as collateral in every deal have been decreased by 25% (75% for underlying REITS);
- stress of asset value correlation: inter and intra correlations have been increased by 15% or 25% depending on the type of product;
- stress of spreads: the spreads, used to determine the marginal distributions of defaults, have been increased by 10%;
- stress of expected residual lives: the latter have been increased by 1 year.

Each of these modules contributes to the definition of a sensitivity grid of the value to the single parameter; results are then aggregated assuming independence between the single elements.

After this valuation, credit analyses on underlying assets were fine-tuned to incorporate further valuation elements not included in the quantitative models. In particular, a Qualitative Credit Review is provided for and entails an accurate analysis of credit aspects referred to the specific structure of the ABS/CDO and to the collateral present. This is to identify any present or future weak points which emerge from the characteristics of the underlying assets, which could have been missed by rating agencies and as such not fully considered in the valuations described in the previous point. The results of this analysis are condensed in certain objective elements (such as Past Due, Weighted Average Delinquency, etc.) which are summarised in an indicator representing credit quality. On the basis of the value of this synthetic indicator, specific thresholds have been identified which correspond to a number of downgrades, so to proceed to a consistent adjustment in the valuation. Finally, for this class of products, Top Management has the possibility to decide a further adjustment which must be based on prices observed from counterparties and on expert opinions.

IV. The pricing model for hedge funds

The main parameter used for the valuation of hedge funds is the operating NAV (Net Asset Value)[1]. The operating NAV does not always coincide with the NAV used for accounting purposes (so-called accounting NAV) as the former can be prudentially adjusted by the Risk Management Department, during the valuation of inventories for accounting purposes, on the basis of certain indicators, circumstances or events, including the following:

– the average volatility of the NAV;
– the time period within which the position may be reasonably considered to be settled;
– the presence of hard[2] or soft lock-up clauses[3];
– the presence of fees to be paid upon exit from the fund;
– the occurrence of delays or suspensions in redemptions;
– the existence of illiquid positions in the fund (with the consequent establishment of side-pockets).

For the financial statements as at 31 December 2008, it was considered appropriate to review the fair value policy, mainly as a result of the significant use by the Funds of instruments and devices aimed at slowing down cash outflows, to the final investors, and therefore capable of severely conditioning the level of liquidity of these Funds. The adjustments arising from this review involved in particular the prudential adjustments associated with the terms of liquidity of the fund and the establishment of an analytical valuation approach for the most critical positions. In terms of the fair value hierarchy, this resulted, for a part of the portfolio positions, in the transition from valuations performed on the basis of "Effective market quotes" to valuations performed using the "Comparable approach" or the "Mark-to-Model Approach".

For the Funds with a liquidity window of between 30 to 120 days, the operating NAV was prudentially adjusted by a "reduction percentage" corresponding to the volatility of the Fund reduced by a "threshold value" of 15%.

More specifically, the situation of liquidity of the Fund had the following repercussions on the type of NAV used for the valuation for accounting purposes.

Fund liquidability terms	Accounting class
<= 30 days	Operating NAV
30 days < x <= 120 days	Operating NAV - % reduction based on NAV volatility
Soft lock-up	Operating NAV - % reduction based on any early exit fee due
> 120 days or Hard lock-up (including any funds on which the lock-up proves lower, but for which the Bank does not have an updated NAV)	The value attributed to the quota is equal to the lower of its average recognition cost and the operating NAV

The need for the valuation to incorporate the particular situations of volatility and illiquidity arising in the last quarter of 2008 led to the establishment of an analytical valuation approach designed to detect these exceptional conditions in a timely manner and to quantify their effects in terms of fair value.

For Funds whose redemptions were not suspended, which created side pockets or that held assets considered to be "at risk", the accounting NAV was reduced by a percentage equal to the related amount in portfolio.

For Funds whose redemptions were suspended, first of all the changed terms of liquidity of the investment were verified with the operators and the Funds themselves. Once the estimated date for the release of the suspensions had been confirmed, the criteria established for the corresponding accounting class were applied, with the following precautions:

[1] The value of the individual quotas of the fund provided regularly by the fund itself or by the administrator of the fund, gross of any exit fees.

[2] Hard lock-up: a strong constraint to liquidity, in other words during the hard lock-up period it is not possible to exit from the fund.

[3] Soft lock-up: a weaker constraint against liquidity; during the soft lock-up period it is possible to exit from the investment earlier than recommended, subject to the payment of a "penalty" (early exit fee).

– if the Fund had declared a part of its portfolio to be illiquid, the accounting NAV was further reduced by a percentage corresponding to the related amount;
– if the Fund had not declared a percentage of illiquid assets and it was one of the Funds valued at the lower of Cost and NAV, when the operating NAV was used (because it was lower than cost) it was also prudentially accompanied by a reduction percentage obtained by considering the volatility of the available price quotations.

Adjustments adopted to reflect model risk and other uncertainties related to the valuation

In general, model risk is represented by the possibility that the valuation of a complex instrument is materially influenced by the model chosen. In fact, since there are often alternative models which may be used for pricing the same instrument and since there is no standard practice on the market for measuring complex financial instruments, it is possible that models which price elementary instruments with the same quality may give rise to different prices for exotic instruments. In these cases, where possible, alternative models are compared, and where necessary, model inputs are subjected to stress tests, thus obtaining useful elements to quantify fair value adjustments. Such adjustments, expressed in terms of measurable financial indicators (vega, delta, correlation shift), are periodically reviewed also in the light of market trends, or the introduction of new liquid instruments, different calculation methodologies and, in general, methodological advances which may also lead to considerable changes in selected models and in their implementation.

These fair value adjustments, due to model risks, are part of a Mark to Market Adjustment Policy adopted for the purpose of considering, in addition to model risk described above, also other factors eligible to influence valuation and essentially attributable to:

– high and/or complex risk profile;
– position illiquidity determined by temporary or structural conditions or in relation to the entity of exchange values held (in case of excessive concentration) and
– valuation difficulties due to the lack of liquid and observable market parameters.

In particular, in the presence of product illiquidity, the fair value is adjusted.

This adjustment is generally not very relevant for instruments for which the valuation is supplied directly by the market. For this purpose quoted securities with a high liquidity are valued directly at mid price, whereas for quoted securities with low liquidity and unquoted securities the bid price is used for long positions and the ask price for short positions.

Conversely, for derivatives for which fair value is determined with a valuation technique, the adjustment may be calculated with different means according to the availability on the market of bid and ask quotes and products with similar characteristics in terms of contract type, underlying asset, currency, maturity and volumes traded which may be used as benchmarks.

Where none of the indications above is available, stress tests are performed on input parameters deemed to be relevant in the model.

The main factors considered to be illiquid (in addition to the inputs for the valuation of structured credit derivatives, illustrated above) and for which the respective adjustments have been calculated, are represented by: correlation of CMS Spread Options, certain inflation rates, Rendistato as well as volatility of Caps/Floors on 1-month and 12-month Euribor.

The adjustment management process is formalised with appropriate calculation methodologies on the basis of the different configurations of the points set out above.

The criteria for the release are subordinated to the elimination of the factors indicated above and disciplined by the Risk Management Department.

Such processes are a combination of quantitative elements that are rigidly specified and qualitative elements which must necessarily derive from management assessments.

For new products, the decision to apply Mark-to-Market Adjustment processes is taken by the New Product Committee upon the proposal of the Risk Management Department.

Application of the methodologies for the Financial Statements: General Principles and compliance with International Accounting Standards

IAS/IFRS prescribe that products in the trading book must be recorded at fair value through profit and loss with exhange value in the income statement.

The existence of official prices in an active market represents the best evidence of fair value, and these prices must be used with priority (effective market quotes) for the registration of financial assets and liabilities in the trading book. If there is no active market, fair value is determined using valuation techniques aimed at ultimately establishing what the transaction price would have been on the measurement date, in an arm-length exchange, motivated by normal business considerations. Such techniques include:

– reference to market values indirectly connected to the instrument to be valued and presumed from products with the same risk profile (comparable approach);
– valuations performed using – even partly – inputs not identified from parameters observed on the market, which are estimated also by way of assumptions made by the person making the assessment (Mark-to-Model).

The choice between the aforesaid methodologies is not optional, since they must be applied according to a hierarchy: more specifically, if a published price quotation on an active market exists, one of the other valuation approaches may not normally be used.

Hierarchy of fair value

As described above, the hierarchy of measurement models, i.e. of the approaches adopted for fair value measurement attributes absolute priority to effective market quotes for valuation of assets and liabilities or for similar assets and liabilities (comparable approach) and a lower priority to non-observable and, therefore, more discretional inputs (mark-to-model approach).

Consequently, fair value is determined using one of the following approaches with a clear order of preference.

i. Effective market quotes

In this case the valuation is the price of the same financial instrument to be measured on the basis of prices quoted on an active market. The proportion of the instruments valued with this method (determined in relation to fair value in the case of derivatives) as a percentage of the total of the instruments measured at fair value is as follows:

Financial assets:

– cash	73.9%
– derivatives	1.7%

Financial liabilities:

– cash	31.1%
– derivatives	2.8%

ii. Valuation Techniques: Comparable Approach

In this case the valuation is not based on the price of the same financial instrument to be measured, but on prices or credit spreads presumed from official listing of instruments which are similar in terms of risk factors, using a given calculation methodology (pricing model). The use of this approach requires the search for transactions on active markets relative to instruments which are comparable in terms of risk factors with the instrument to be measured. The calculation methodologies (pricing models) used in the comparable approach reproduce prices of financial instruments quoted on active markets (model calibration) and do not contain discretional parameters – parameters for which values may not be inferred from quotes of financial instruments present on active markets or fixed at levels capable of reproducing quotes on active markets – that significantly influence the final valuation. The proportion of the instruments valued with this method (determined in relation to fair value in the case of derivatives) as a percentage of the total of the instruments measured at fair value is as follows:

Financial assets:

– cash	22.3%
– derivatives	97.8%

Financial liabilities:

– cash	68.9%
– derivatives	95.4%

iii. Valuation Techniques: Mark-to-Model Approach

In this case valuations are based on various inputs, which are not presumed directly from parameters which may be observed on the market and therefore imply estimates and assumptions on the part of the valuator. In particular, with this approach the valuation of the financial instrument uses a calculation methodology (pricing model) which is based on specific assumptions of:

- the development of future cash-flows, which may be affected by future events that may be attributed probabilities presumed from past experience or on the basis of the assumed behaviour;
- the level of specific input parameters not quoted on active markets, for which information acquired from prices and spreads observed on the market is in any case preferred. Where these are not available, past data on the specific risk of the underlying asset or specialised reports are used (e.g. reports prepared by Rating agencies or primary market players).

The proportion of the instruments valued with this method (determined in relation to fair value in the case of derivatives) as a percentage of the total of the instruments measured at fair value is as follows:

Financial assets:

- cash 3.8%
- derivatives 0.5%

Financial liabilities:

- cash ---
- derivatives 1.8%

Table 12 – Operational risk

Qualitative disclosure

Methods for calculating Operational Risk

As at 31 December 2008 the Group adopted the Traditional Standardised Approach - TSA.

For the use of the Standardised approach, and in addition to the corporate governance mechanisms required by the Supervisory regulations, the Bank has set up an effective system for the management of operational risk certified by the process of annual self-assessment carried out by the Group Companies that fall within the scope of the TSA. This self-assessment is verified by the internal auditing department and submitted to the corporate bodies for the annual certification of compliance with the requirements established by the regulation.

Under the Standardised approach, the capital requirement is calculated by multiplying gross income by separate regulatory percentages for each of the business lines into which the Banks' activities are divided.

The Intesa Sanpaolo Group has already developed an internal Advanced Measurement Approach (AMA) in accordance with the requirements of the Supervisory regulations that, once the preparation work has been completed, will be submitted for authorisation for the purposes of calculating the capital requirements during 2009.

The internal AMA model, used for operational purposes and for the ICAAP process, has the following summary features.

Intesa Sanpaolo's internal AMA model is designed to combine all the main quantitative (internal and external historical incurred loss data) and qualitative information sources (scenario analysis and operating valuation context).

The quantitative component is based on the assessment of historical data on internal events (recorded by organisational units, verified by the central function and managed by a dedicated IT system) and external events (including participation in consortium initiatives such as "Database Italiano Perdite Operative" – Italian Operating Loss Database – managed by the Italian Banking Association and Operational Riskdata eXchange Association) applying actuarial techniques that entail the separate study of event frequency and impact and the subsequent formation, through Montecarlo simulations, of the annual loss distribution curve and consequently of risk measures.

The qualitative component (scenario analyses) focuses on the forward-looking assessment of the risk exposure of each unit and is based on the structured, organised collection of subjective estimates expressed directly by Management (subsidiary companies, Parent Company's business areas, Corporate Centre) with the objective of assessing the potential economic impact of particularly serious operational events; such assessments, processed with statistical-actuarial techniques, calculate an unexpected loss estimate which is subsequently integrated in the measurement obtained by the analysis of historical loss data.

Capital-at-Risk is therefore identified as the minimum amount at Group level, net of insurance cover, required to bear the maximum potential loss (worst loss); Capital-at-Risk is estimated using a Loss Distribution Approach model (actuarial statistical model to calculate the Value-at-Risk of operational losses), applied on quantitative and qualitative data assuming a one-year estimation period, with a level of confidence level of 99.96% (99.90% for regulatory measurement); the methodology also applies a corrective factor, which derives from the qualitative analyses of the risk of the evaluation of the business environment and internal control factors, to take account of the effectiveness of internal controls in the various organisational units.

Table 13 – Equity exposures: disclosures for banking book positions

Qualitative disclosure

Equity exposures included in the banking book: differentiation between exposures according to the objectives pursued

The investments in equities present in the Banking Group have a variety of functions:

- Strategic - companies subject to significant influence and joint ventures with industry partners;
- instrumental to the Bank's business and the development of commercial operations;
- institutional - investments in trade associations, consortium companies, and local bodies and institutions;
- financial investment - especially private equity investments.

Recognition and valuation of the equity instruments included in the banking book

The equity exposures included in the banking book are classified under the balance sheet items Investments and Assets available for sale. They are not, however, included within the Financial assets designated at fair value through profit and loss (DAAFV), because the Intesa SanPaolo Group usually classifies investments in relation to insurance policies (not included in the scope of this disclosure, see Table 2) and certain debt securities with incorporated derivatives or debt securities subject to financial hedging. They are therefore presented below:

- the accounting policies for the two portfolios of classification of the equity instruments included in the banking book (AFS and equity investments);
- the procedures for the determination of the fair value of the financial instruments (therefore including AFS and equity investments) adopted by the Group.

Financial assets available for sale – accounting policies

1. Classification criteria

This category includes equities that are not classified as Financial assets held for trading, Financial assets designated at fair value through profit and loss or Investments. Specifically, this item includes equity investments that are not held for trading and do not qualify as investments in subsidiaries, associates or entities subject to joint control, including private equity investments and private equity funds.

2. Recognition criteria

Initial recognition of financial assets occurs at settlement date. On initial recognition, assets are recorded at fair value, including transaction costs and revenues directly attributable to the instrument. For an illustration of the valuation techniques used to determine fair value, see the relevant chapter.

3. Measurement criteria

After initial recognition, the Financial assets available for sale are measured at fair value, the gains or losses deriving from a change in fair value are recorded in a specific reserve in shareholders' equity, until the financial asset is derecognised or a permanent loss occurs. On the sale of the financial asset or on recognition of a loss, the cumulated profit or loss must be reversed, all or in part, to the income statement.
For the determination of the fair value of financial instruments quoted on active markets, market quotations are used. If the market for a financial instrument is not active, standard practice estimation methods and valuation techniques are used which consider all the risk factors correlated to the instruments and that are based on market elements such as: valuation of quoted instruments with the same characteristics, calculation of discounted cash flows, recent comparable transactions, etc..
The equities included in this category for which the fair value cannot be reliably determined are maintained at cost.

Financial assets available for sale are assessed to identify if they show objective evidence of an impairment loss.
If such evidence exists, the loss is measured by means of specific valuation methods (see item 5 below).
If the reasons for impairment are no longer valid following an event subsequent to the registration of impairment, recoveries are posted through shareholders' equity.

4. Derecognition criteria

Financial assets are derecognised solely if the sale leads to the substantial transfer of all the risks and rewards connected to the assets. Conversely, if a significant part of the risks and rewards relative to the sold financial assets is maintained, they continue to be recorded in assets, even though their title has been transferred.
When it is not possible to ascertain the substantial transfer of risks and rewards, the financial assets are derecognised where no control over the assets has been maintained. If this is not the case, when control, even partial, is maintained, the assets continue to be recognised for the entity's continuing involvement, measured by the exposure to changes in value of assets sold and to variations in the relevant cash flows.
Lastly, financial assets sold are derecognised if the entity retains the contractual rights to receive the cash flows of the asset, but signs a simultaneous obligation to pay those cash flows, and only those cash flows, to third parties.

5. Impairment tests for financial assets available for sale

With reference to assets available for sale, the process of detection of any impairment involves the verification of the presence of impairment indicators and the determination of any write-down.
The impairment indicators are essentially divided into two categories: indicators deriving from internal factors relating to the company being valued, and therefore qualitative, and external indicators deriving from the market values of the company (only for quoted equities).
Within the first category the following indicators are considered to be significant: the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start-up of restructuring plans, and the downgrading by more than two categories of the rating issued by a specialist company. For the second category, the following factors represent significant indicators of potential problems: a stock price, also observed in comparison with the performance of the related market index, of over 30% less than the initial recognition value or lower than the initial recognition value for a continuous period of more than 12 months, and a market capitalisation as at the date of the valuation of less than the company's net book value.
The presence of specific impairment indicators and of a fundamental valuation of the security, or a quoted price in the case of equities, of over 30% less than the initial recognition value or lower than the initial recognition value for a continuous period of more than 12 months, results in the recognition of impairment. In this case, the impairment loss recognised during the year and any negative reserve of shareholders' equity are charged to the income statement.

Equity investments – accounting policies

1. Classification criteria

This caption includes investments in companies subject to joint control (other than the entities conducting banking or insurance business, which are consolidated in this document according to the proportional consolidation method – see Table 2) and associates.
Companies are considered as subject to joint control when the voting rights and the control of the economic activities of the company are equally shared by Intesa Sanpaolo, directly or indirectly, and another entity. Furthermore, a company is considered as subject to joint control even when voting rights are not equally shared if control over the economic activities and the strategies of the company is shared based on contractual agreements with other entities.
Companies are considered associates, that is subject to significant influence, when the Parent Company directly or indirectly holds at least 20% of voting rights or if the Parent Company – with a lower equity stake – has the power of participating in the determination of the financial and management policies of the company based on specific juridical relations, such as the participation to voting syndicates.
Certain companies in which Intesa Sanpaolo holds a direct or indirect stake exceeding 20% are not considered subject to significant influence since it solely has economic rights on a portion of the returns generated by the investment, but does not have access to management policies and may exercise governance rights limited to the protection of its economic interests.
The caption also includes the equity stake in Bank of Italy.

2. Recognition criteria
Initial recognition occurs at settlement date. On initial recognition, the investments are recorded at cost, including transaction costs and revenues directly attributable to the instrument.

3. Measurement criteria
The investments are valued by consolidation at equity. Intesa Sanpaolo has also opted to use this consolidation method for companies subject to joint control instead of proportional consolidation, as permitted by IAS 31.
The equity method requires the initial recognition of the equity investment at cost and its subsequent value adjustment based on the stake in the company's shareholders' equity.
Any difference between the value of the equity investment and the shareholders' equity of the company involved is recorded in the book value of the company.
The valuation of the portion of shareholders' equity does not consider any potential voting rights.
The portion of the company's results for the period pertaining to the Group is recorded in a specific caption of the consolidated income statement.
If there is evidence of impairment, the recoverable amount of the investment is estimated, considering the present value of the future cash flows, which may be generated by the investment, including the final disposal value.
If the recoverable amount is lower than the carrying value, the difference is recorded in the income statement.
If the reasons for impairment are no longer applicable following an event subsequent to the registration of impairment, recoveries are recorded in the income statement.
For consolidation of companies subject to joint control, financial statements as at 31 December 2008 have been used.
For consolidation of investments in associates, the most recent approved (annual or interim) figures have been used. In certain marginal cases, the companies do not apply IAS/IFRS and, therefore, for such companies it was verified that the adoption of IAS/IFRS would not have produced significant effects on the Intesa Sanpaolo Group's Consolidated financial statements.
The investment in the Bank of Italy and certain investments in marginal companies i) in liquidation and/or terminating activities and ii) at the start-up phase with no balance sheet are maintained at cost.

4. Derecognition criteria
Investments in associates and companies subject to joint control are derecognised when the contractual rights to the cash flows from the assets expire or when the investment is sold, substantially transferring all the risks and rewards connected to the assets.

5. Impairment tests of investments
At each balance sheet date the equity investments in associates or companies subject to joint control are subjected to an impairment test to assess whether there is objective evidence to consider that the carrying value of such assets is not fully recoverable.
The detection of any impairment involves the verification of the presence of impairment indicators and the determination of any write-down. The impairment indicators are essentially divided into two categories: indicators deriving from internal factors relating to the company being valued, and therefore qualitative, and external indicators deriving from the market values of the company (only for quoted equities).
Within the first category the following indicators are considered to be significant: the generation of negative economic results or in any case a significant variance with respect to the targets budgeted or established in the multi-year plans disclosed to the market, the announcement/start up of restructuring plans, and the downgrading by more than two categories of the rating issued by a specialist company. For the second category, the following factors represent significant indicators of potential problems: a stock price, also observed in comparison with the performance of the related market index, of over 30% less than the initial recognition value or lower than the initial recognition value for a continuous period of more than 12 months, and a market capitalisation as at the date of the valuation of less than the company's net book value.
The presence of specific impairment indicators results in the recognition of a write-down to the extent that the recoverable amount is lower than the recognition value.
The recoverable amount consists of the higher of the fair value less costs to sell and the value in use.
For an illustration of the valuation techniques used to determine fair value, see the relevant chapter below.
Value in use is the present value of expected future cash flows from the asset undergoing the impairment process; it reflects estimated expected future cash flows from the asset, the estimate of possible changes in

the amount and/or timing of cash flows, time value of money, the price able to repay the risk of the asset and other factors such as for example the illiquidity of the asset, which may affect the appreciation by market participants of expected future cash flows from the asset.
Value in use is determined by discounting future cash flows (DCF - Discounted Cash Flow).

Fair value measurement

The fair value is the amount for which an asset may be exchanged or a liability settled between knowledgeable, willing counterparties in an arm's length transaction. Underlying the definition of fair value is an assumption that an entity is a going concern without any need to liquidate or curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value reflects the credit quality of the instrument since it incorporates counterparty risk.

The fair value of financial instruments is determined through the use of prices obtained from financial markets in the case of instruments quoted on active markets or via internal valuation techniques for other financial instruments.
A market is regarded as active if quoted prices, representing actual and regularly occurring market transactions considering a normal reference period, are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency. The following instruments are considered quoted on an active market which respects the characteristics indicated above: mutual funds, spot exchange rates, futures, options, equities quoted on a regulated market and bonds for which it is possible to continuously derive at least a bid and ask price on a quotation service with a bid-ask spread under an interval deemed to be congruous. Lastly, hedge funds are also considered quoted on an active market if they provide for a monthly liquidation of the quotas. Conversely, all other securities, derivatives and hedge funds which do not fall in the categories described above are not considered quoted on an active market.
For financial instruments quoted on active markets the current bid price is used for financial assets and the current asking price for financial liabilities, struck on the most advantageous active market to which Banca Intesa had access at the close of the reference period.
For financial instruments for which the bid-ask spread is scarcely significant or for financial assets and liabilities with offsetting market risks, mid-market prices are used (again referred to the last day of the reference period) instead of the bid or ask price.
When the market is not functioning regularly, that is when the market does not have a sufficient and continuous number of trades, and bid-offer spreads and volatility that are not sufficiently contained, the fair value of the financial instruments is mainly determined through the use of valuation techniques whose objective is the establishment of the price of a hypothetical arm's length transaction, motivated by normal business considerations, as at the measurement date. Such techniques include:
– reference to market values indirectly connected to the instrument to be valued and presumed from products with the same risk profile (comparable approach);
– valuations performed using – even partially – inputs not identified from parameters observed on the market, which are estimated also by way of assumptions made by the person making the assessment (Mark-to-Model).

The choice between the aforesaid methodologies is not optional, since they must be applied according to a hierarchy: absolute priority is given to effective market quotes available on active markets for the assets and liabilities to be valued or for similar assets and liabilities (comparable approach), and a lower priority to non-observable and, therefore, more discretional inputs (mark-to-model approach).
Valuation techniques incorporate all factors that market participants consider in setting a price: time value using the risk free rate, insolvency risk, prepayment and surrender risk, volatility of the financial instrument, as well as, if relevant, foreign exchange rates, raw material prices and stock prices.
In the presence of high risk or parameters which are not directly observable on the market for more innovative financial products, the fair value resulting from valuation techniques is prudentially decreased through the application of a correction factor, determined on the basis of the degree of complexity of the valuation technique used and the liquidity of the financial instrument. Since liquidity risk tends to decrease as the instrument reaches maturity, the aforementioned correction factor is multiplied by a number which decreases on the basis of the financial product's residual life.
The valuation technique defined for a financial instrument is adopted over time and is modified only following significant changes in market conditions or the subjective conditions related to the issuer of the financial instrument.
With regard to bonds and derivatives, valuation techniques have been defined and refer to current market values of similar instruments, to the time value and to option pricing models, marginally referring to the

specific elements of the entity being valued and considering the parameters deductible from the market. The latter are identified and applied on the basis of the liquidity, depth and transparency of reference markets. When using a calculation model, the need to make an adjustment to incorporate counterparty credit risk is considered.

In particular, bonds are measured by discounting future cash flows provided for in the contract, adjusted to consider issuer risk. Issued bonds for which the fair value option has been exercised are measured by the same process.

In consideration of their number and complexity, a systematic reference framework has been developed for derivatives which represents the common elements (calculation algorithms, processing models, market data used, basic assumptions of the model) that are used to measure all categories of derivatives.

Various valuation techniques are used for equities: direct transactions, that is significant transactions on the stock registered in a time frame considered to be sufficiently short with respect to measurement date and in constant market conditions, comparable transactions of companies operating in the same sectors and offering products/services similar to those of the equity investment to be measured, the application of average significant market multiples of comparable companies with respect to balance sheet and income statement aggregates of the subsidiary and, lastly, financial, income statement and balance sheet analytical valuation techniques.

For further information on the valuation models actually used to value the financial instruments please see also Table 11 of this disclosure.

Quantitative disclosure

Banking book: on-balance sheet equity exposures (*)

(in millions of euro)

Exposure type/values	Book value		Fair value		Market value	Unrealised gains/losses and impairments		Unrealised gains/losses recognised in the balance sheet	
	Listed	Unlisted	Listed	Unlisted	Listed	Gains	Losses	Plus (+)	Minus (-)
A. INVESTMENTS IN ASSOCIATES AND COMPANIES SUBJECT TO JOINT CONTROL	182	3,048	88	X	88	534	-358	X	X
B. AFS	789	1,438	789	1,438	789	163	-787	215	-223
C. DAAFV	-	-	-	-	-	-	-	X	X

(*) The figures presented in this table may differ from the corresponding information contained in Part B and E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application).

The net capital losses on equity investments included under the negative elements of the Tier 2 capital amount to 45 million euro.

Banking book: type, nature and amount of the exposures (*)

(in millions of euro)

	Weighted exposure
IRB method	**657**
Exchange-traded exposures	96
Private equity exposures	175
Other exposures	386
Standardised approach	**2,925**

(*) The figures presented in this table may differ from the corresponding information contained in Part B and E of the Notes to the consolidated financial statements as they have been calculated on the basis of a different consolidation area to the one used for the financial statements (see Table 2 Scope of application).

Table 14 – Interest rate risk on positions in the banking book

Qualitative disclosure

Interest rate risk

Interest rate risk originated by the banking book arises primarily in the Parent Company and in the main Group Companies that carry out retail and corporate banking and represents the risk that potential variations in the rates will have an impact on the interest margin and on the net present value of the assets and liabilities included within the banking book.

Within the banking book, the capital items are represented as "to maturity" or "repricing" depending on whether they involve a fixed or variable rate with the exception of customer sight deposits and loans for which the choice has been made to use a behavioural as opposed to contractual representation for the calculation of the risk measures.

As already mentioned in Table 1 of this disclosure, two types of measurement have been adopted for the measurement of the financial risks generated by the banking book, namely Value at Risk (VaR) and Sensitivity analysis.

The VaR, in addition to being used to measure the price and exchange risks generated by the equity investments, is also used to consolidate exposure to financial risks of the various Group companies that perform banking book activities, thereby taking into account diversification benefits.

The shift sensitivity analysis, with reference to the interest rate risk, defines the movement as a parallel and uniform shift of ±100 basis points of the rate curve. The measurements include an estimate of the prepayment and the risk originated by customer sight loans and deposits, whose features of stability and partial and delayed reaction to interest rate fluctuations have been studied by analysing a large collection of historical data, obtaining a maturity representation model through equivalent deposits.

The sensitivity of the interest margin is also measured on the basis of a parallel and instantaneous shock in the interest rate curve of ±100 basis points, over a period of 12 months. It should be noted that this measure highlights the effect of variations in market interest rates on the portfolio being measured, and excludes assumptions on future changes in the mix of assets and liabilities and, therefore, it cannot be considered as a predictor of the future levels of the interest margin.

The Group's overall financial risk profile and the opportune interventions aimed at changing it are examined periodically by the Group Financial Risks Committee.

Quantitative disclosure

Interest rate risk

Interest margin sensitivity – in the event of a 100 basis points rise in interest rates – amounted to 102 million euro at the end of 2008 (-92 million euro in case of reduction), lower than at the end of 2007 (+204 million euro and -205 million euro, respectively in the case of increase/decrease of interest rates), mostly as a result of fixed income investments to hedge the risk of on demand deposits.
In the case of invariance of the other income components, the aforesaid potential impact would be reflected also in the Group's year-end net income and taking into account the abovementioned assumptions concerning the measurement procedures.

In 2008, interest rate risk generated by the Intesa Sanpaolo Group's banking book, measured through shift sensitivity analysis, registered an average value of 376 million euro and 484 million euro at year end compared to the 369 million euro at the end of 2007.

The table below shows the impact on the banking book of the ±100bp shock, broken down into the main currencies that the Intesa Sanpaolo Group is exposed to.

(in millions of euro)

EUR	Euro	440
USD	US dollar	10
CHF	Swiss franc	3
HUF	Hungarian florin	10
HRK	Croatian kuna	10
RUB	Russian rouble	7
	Other currencies	4
TOTAL		**484**

Interest rate risk, measured in terms of VaR, averaged 134 million euro in 2008 (104 million euro at the end of 2007), with a minimum value of 92 million euro and a maximum value of 218 million euro. At the end of December 2008 VaR totalled 177 million euro.

Declaration of the Manager responsible for preparing the Company's financial reports

The Manager responsible for preparing the Company's financial reports, Ernesto Riva, declares, pursuant to par. 2 of art. 154-bis of the Consolidated Law on Finance, that the accounting information contained in this document corresponds to the corporate records, books and accounts.

9 April 2009

Ernesto Riva
Manager responsible for preparing the
Company's financial reports

Glossary

GLOSSARY OF TERMS PERTAINING TO DISCLOSURE REQUIREMENTS UNDER THE THIRD PILLAR OF BASEL 2

(with the meaning adopted in this document and excluding terms widely used in the Italian language or which are used in a context that already clarifies their meaning)

ABS – Asset-Backed Securities
Financial securities whose yield and redemption are guaranteed by a pool of assets (collateral) of the issuer (usually a Special Purpose Vehicle – SPV), exclusively intended to ensure satisfaction of the rights attached to said financial securities.
Examples of assets pledged as collateral include mortgages, credit card receivables, short-term trade receivables and auto loans.

ABS (receivables)
ABS whose collateral is made up of receivables.

Acquisition finance
Leveraged buy-out financing.

Additional return
Type of remuneration of the junior securities arising from securitisation transactions. In addition to a fixed dividend, such securities accrue periodic earnings (quarterly, semi-annual, etc.), whose amount is linked to the profit generated by the transaction (which in turn reflects the performance of the securitised assets).

Advisor
Financial broker assisting government authorities or companies involved in privatisation or other corporate finance transactions, whose tasks range from arranging appraisals to drawing up documents and providing general professional advice about specific transactions.

AIRB (Advanced Internal Ratings-Based) Approach
Approach to using internal ratings within the framework of the New Basel Accord, which provides for either the Foundation or the Advanced Approach. The Advanced Approach may be used only by institutions meeting more stringent requirements compared to the Foundation Approach. With the Advanced Approach, banks use their own internal estimates for all inputs (PD, LGD, EAD and Maturity) used for credit risk assessment, whereas, for Foundation IRB they only estimate PD.

ALM – Asset & Liability Management
Integrated management of assets and liabilities designed to allocate the resources with a view to optimising the risk/yield ratio.

ALT-A Agency
Securities whose collateral consists of Alt-A mortgages, guaranteed by specialised Government Agencies.

ALT- A - Alternative A Loan
Residential mortgages generally of "prime" category, but which, due to various factors such as LTV ratio, documentation provided, borrower's income/employment situation, type of property etc., cannot be classified as standard contracts usable in subscription programmes.
Incomplete documentation is the main reason for a loan being classified as "Alt-A".

Alternative investment
Alternative investments comprise a wide range of investment products, including *private equity* and *hedge funds* (see definitions below).

AMA
(Advanced Measurement Approach) - A method for determining the operational risk capital requirements using calculation models based on operational loss data and other assessment elements collected and processed by the bank. Specific access thresholds and eligibility requirements are defined for adoption of the Standardised and Advanced approaches. For AMA systems, the requirements concern not only the management system but also the measurement system

Amortised cost
Differs from "cost" in that it provides for the progressive amortisation of the differential between the book value and nominal value of an asset or liability on the basis of the effective rate of return.

Arranger
In the structured finance sector, the arranger is the entity that – albeit in different forms and with different titles (mandated lead arranger, joint lead arranger, sole arranger etc.) – coordinates the organisational aspects of the transaction.

Arrangement fee
A fee paid for professional advice and assistance provided in the loan structuring and arranging stage.

Asset allocation
The distribution of assets in an investment portfolio among different markets, geographical areas, sectors and products.

AP – Attachment Point
Level above which a protection seller will cover the losses of a protection buyer. It is typically used in synthetic CDOs.

Audit
In listed companies, it indicates the various examinations of the business activities and bookkeeping of a company, performed by both in-house staff (*internal audit*) and independent audit firms (*external audit*).

Back office
The unit of a bank or financial company that processes all the transactions performed by the operational units (*front office*).

Backtesting
Retrospective analyses performed to verify the reliability of the measurement of risk sources associated with different asset portfolios.

Banking book
Usually referred to securities or financial instruments in general, it identifies the portion of a portfolio dedicated to "proprietary" trading.

Basis swap
Contract providing for the exchange between two parties, of two floating-rate payments linked to a different index.

Best practice
It generally identifies conduct in line with state-of-the-art skills and techniques in a given technical/professional area.

Bid-ask spread
The difference between the buying and selling price of a given financial instrument or set of financial instruments.

Bookrunner
See *Lead manager*.

Budget
Forecast of cost and revenue performance of a company over a period of time.

CAGR (Compound Annual Growth Rate)
Compound annual growth rate of an investment over a specified period of time. If n is the number of years, CAGR is calculated as follows: (Ending value/Starting value)^(1/n) -1.

Capital Asset Pricing Model (CAPM)
An economic model for determining the "opportunity cost" i.e. the amount of income for the period necessary to remunerate the cost of capital.

Capital structure
It is the entire set of the various classes of bonds (tranches) issued by a special purpose vehicle (SPV), and backed by its asset portfolio, which have different risk and return characteristics, to meet the requirements of different categories of investors. Subordination relationships between the various tranches are regulated by a set of rules on the allocation of losses generated by the collateral:
Equity Tranche (B): The riskiest portion of the portfolio, it is also known as "first loss" and is subordinated to all other tranches; hence, it is the first to bear the losses which might occur in the recovery of the underlying assets.
Mezzanine Tranche (B): The tranche with intermediate subordination level between equity and senior tranches. The mezzanine tranche is normally divided into 2-4 tranches with different risk levels, subordinated to one another. They are usually rated in the range between BBB and AAA.
Senior/Super-senior Tranche (B): The tranche with the highest credit enhancement, i.e. having the highest priority claim on remuneration and reimbursement. It is normally also called super-senior tranche and, if rated, it has a rating higher than AAA since it is senior with respect to the AAA mezzanine tranche.

Cap test
A test performed in respect of the originator or the promoter to establish capital requirements in securitisation transactions. Under the regulations, the risk-weighted value of all exposures in respect of a single securitisation cannot exceed the weighted value of the securitised assets, calculated as if said assets had not been securitised (cap). The capital requirement in respect of all exposures to the same securitisation is equal to 8% of the CAP.

Captive
Term generically referring to "networks" or companies that operate in the exclusive interest of their parent company or group.

Cash flow hedge
Coverage against exposure to variability in cash flows associated with a particular risk.

Cash-generating Unit (CGU)
The smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Cash management
A banking service that in addition to informing companies on the status of their relations with the bank, is an operational tool enabling companies to transfer funds, thus leading to more efficient treasury management.

Categories of financial instruments provided for by IAS 39
Financial assets "held-for-trading", which includes the following: any asset acquired for the purpose of selling it in the near term or part of portfolios of instruments managed jointly for the purpose of short-term profit-taking, and assets that the entity decides in any case to measure at fair value, with fair value changes recognized in profit and loss; *financial assets "held-to-maturity",* non-derivative assets with fixed term and fixed or determinable payments, that an entity intends and is able to hold to maturity; "*Loans and receivables",* non-derivative financial assets with fixed or determinable payments not quoted in an active market; *financial assets "available-for-sale",* specifically designated as such, or, to a lesser extent, others not falling under the previous categories.

CCF – Credit Conversion Factor
For banks that use the Standardised Approach and the FIRB, the Credit Conversion Factor is the weighting - provided for by the applicable regulations - applied to off-balance sheet exposures to determine their EAD:
- 100% to full-risk guarantees and commitments;
- 50% to medium-risk guarantees and commitments (e.g. margins available on irrevocable credit lines with an original maturity of more than one year);
- 20% to medium-low risk guarantees and commitments (import-export documentary credits);
- 0% to low-risk guarantees and commitments (e.g. undrawn revocable credit facilities);

CDO – Collateralised Debt Obligation
Financial instruments issued within the framework of securitisation transactions, backed by a pool of loans, bonds and other financial assets (including securitisation tranches). In the case of synthetic CDOs the risk is backed by credit derivatives instead of the sale of assets (cash CDOs).

CDSs on ABX
An Asset-backed security index (ABX) is an index with asset-backed securities as an underlying. Each ABX

refers to a basket of 20 reference obligations belonging to a specific ABS sector. Each ABX (there are five in total) reproduces a rating class (AAA, AA, A, BBB, and BBB-).
In particular, the ABX.HE index, launched on 19 January 2006 (Annex Date), is made up of reference obligations of the home equity segment of ABS (Residential Mortgage-Backed Security – RMBS). The CDS on an ABX.HE therefore hedges the credit risk of underlying RMBSs or the risk relative to the 20 reference obligations which make up the index.
For ABX, the market does not provide credit curves but directly price valuation. The settlement admitted for contracts on ABX indices, as described in ISDA 2005 documentation, is PAUG (Pay As You Go): the protection seller pays the protection buyer the losses incurred as these emerge, without leading to termination of the contract.
Please note that the coverage achieved via the purchase of ABX indices, even if it is structured so as to match as closely as possible the characteristics of the hedged portfolio, remains in any case exposed to basis risks. In other words, since it is not a specific hedge of individual exposures, it may generate volatility in the income statement whenever there is imperfect correlation between index prices and market value of the hedged positions.

CLO - Collateralised Loan Obligation
CDOs backed by a portfolio of corporate loans.

CMBS - Commercial Mortgage-Backed Securities
Debt instruments backed by mortgages on commercial real estate.

CMO - Collateralised Mortgage Obligation
Securities backed by mortgages in which the total amount of the issue is divided into tranches with different maturities and return. The tranches are repaid according to an order specified in the issue.

CMBX index
The same as the ABX index, the only difference being that the reference entities are CMBSs.

Collective assessment of performing loans
With reference to a homogeneous group of regularly performing financial assets, collective assessment defines the degree of credit risk potentially associated with them, though it is not yet possible to tie risk to a specific position.

Consumer ABS
ABS whose collateral is made up of consumer credits.

Core Business
Main area of business on which company's strategies and policies are focused.

Core Tier 1 ratio
The ratio of Tier 1 capital, net of preferred shares, to total risk-weighted assets. Preferred shares are innovative capital instruments, usually issued by foreign subsidiaries, and included in the tier 1 capital if their characteristics ensure the banks' asset stability. The Tier 1 ratio is the same ratio inclusive of the preferred shares in the numerator.

Corporate
Customer segment consisting of medium- and large-sized companies (*mid-corporate, large corporate*).

Covered bond
Special bank bond that, in addition to the guarantee of the issuing bank, is also backed by a portfolio of mortgage loans or other high-quality loans sold to a special purpose vehicle.

Credit default swap/option
Contract under which one party transfers to another - in exchange for payment of a premium - the credit risk of a loan or security contingent on occurrence of a default event (in the case of an option the right must be exercised by the purchaser).

Credit derivatives
Derivative contracts for the transfer of credit risks. These products allow investors to perform arbitrage and/or hedging on the credit market, mainly by means of instruments other than cash, to acquire credit exposures of varying maturities and intensities, to modify the risk profile of a portfolio and to separate credit risks from other market risks.

Credit enhancement
Techniques and instruments used by issuers to improve the credit rating of their issues (providing sureties, cash credit lines, etc.).

Credit/emerging markets (Funds)
Funds that invest in securities with credit risk exposure, since they are issued by financial or corporate entities, which may be located in emerging countries.

Credit-linked notes
Similar to bonds issued by a protection buyer or a special purpose vehicle whose holders (protection sellers) – in exchange for a yield equal to the yield of a bond with the same maturity plus the premium received for credit risk hedging – take the risk of losing (in whole or in part) the maturing capital and the related flow of interest, upon occurrence of a default event.

Credit spread option
Contract under which the protection buyer reserves the right, against payment of a premium, to collect from the protection seller a sum depending on the positive difference between the market spread and that fixed in the contract, applied to the notional value of the bond.

CreditVaR
Value that indicates an unexpected loss with respect to a credit portfolio at a specified confidence interval and a specified time horizon. CreditVaR is estimated through loss distribution and represents the difference between the average value of the distribution and the value corresponding to a certain percentile (usually 99.9%), which reflects the Bank's risk propensity.

Cross selling
Activity designed to increase customer loyalty through the sale of integrated products and services.

CR01
Referred to a credit portfolio, it indicates the change in portfolio value that would occur for a 1-basis-point increase in credit spreads.

CRM
Credit Risk Mitigation.

Cumulative loss
Cumulative loss incurred, at a certain date, on the collateral of a specific structured product.

Default
Declared inability to honour one's debts and/or make the relevant interest payments.

Delinquency
Failure to make loan payments at a certain date, normally provided at 30, 60 and 90 days.

Delta-Gamma-Vega (DGV VaR)
Parametric model for calculation of the VaR, able to assess both linear and non-linear risk factors.

Desk
It usually designates an operating unit dedicated to a particular activity.

Dynamics of funding
Sum of deposits in a current account (free current accounts and bank drafts), returnable deposits upon prior notice (free savings deposits), time deposits (time current accounts and time deposits, certificates of deposit), repo agreements and bonds (including subordinated loans). All contract types, with the exception of bonds, refer to Italian customers, excluding the Central Administration, in euro and foreign currency. Bonds refer to the total amount issued, irrespective of residence and sector of the holder.

Directional (Funds)
Funds that invest in financial instruments that profit from directional market movements, also through macroeconomic forecasting.

Domestic Currency Swap
Contract settled in euro, whose economic effect is equal to that of a time purchase or sale of a foreign currency in exchange for domestic currency. On expiry, the difference between the forward and the spot exchange rates is settled in euro.

Duration
An indicator of the interest rate risk of a bond or bond portfolio. In its most frequent form, it is calculated as a weighted average of the due dates of interest and principal payments associated with a bond.

EAD – Exposure At Default
Relating to positions on or off balance sheet, it is defined as the estimated future value of an exposure upon default of a debtor. Only banks meeting the requirements for using the AIRB approach are entitled to estimate EAD. The others are required to make reference to statutory estimates.

EDF – Expected Default Frequency
Frequency of default, normally based on a sample internal or external to the bank, which represents the average risk level associable with a counterparty.

Equity hedge / long-short (Funds)
Funds that predominantly invest in stocks with the possibility of creating hedging strategies by means of short sales of the same stocks or strategies in derivatives contracts involving securities or market indices.

Equity origination
Increase of a company's risk capital achieved by floating a new issue of stock.

Exotics (derivatives)
Non-standard instruments unlisted on the regular markets, whose price is based on mathematical models.

Event-driven (Funds)
Funds that invest in opportunities arising out of significant events regarding the corporate sphere, such as mergers, acquisitions, defaults and reorganisations.

EVT – Extreme Value Theory
Statistical methodologies that deal with extreme hypothetical deviations from median of probability distributions of specific events.

Facility (fee)
Fee calculated with reference to the disbursed amount of a loan.

Factoring
Sale of trade receivables to factoring companies, for credit management and collection, normally associated with the granting of a loan to the seller.

Fair value
The amount at which an asset could be bought or sold or a liability incurred or settled, in a current transaction between willing parties.

Fair value hedge
Hedging against the risk of change in the fair value of a financial statement item, attributable to a particular risk.

Fairness/Legal opinion
An opinion provided on request by experts of recognised professionalism and competence, on the adequacy of the economic terms and/or lawfulness and/or technical aspects of a given transaction.

FICO Score
In the US, a credit score is a number (usually between 300 and 850) based on the statistical analysis of an individual's credit report. The FICO score is an indicator of the borrower's creditworthiness. A mortgage lender will use the "score" to assess borrower default risk and to correctly price risk.

Financial instruments listed in an active market
A financial instrument is regarded as listed in an active market if listed prices are promptly and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those

prices represent actual and regularly occurring market transactions on an arm's length basis.

FIRB
See IRB.

Forward Rate Agreement
See "*Forwards*".

Forwards
Forward contracts on interest rates, exchange rates or stock indices, generally negotiated in over-the-counter markets and whose conditions are established at the time when the contract is entered into, but which will be executed at a specified future date, by means of the receipt or payment of differentials calculated with reference to parameters that vary according to the object of the contract.

Front office
The divisions of a company designed to deal directly with customers.

Fundamental Valuation
Stock price analysis performed by estimating the fair value of stocks and comparing it with their market value.

Funding
The raising of capital, in various forms, to finance the company business or particular financial transactions.

Futures
Standardised forward contracts under which the parties agree to exchange securities or commodities at a specified price on a specified future date. Futures are normally traded on organised markets, where their execution is guaranteed. In practice, futures on securities often do not involve the physical exchange of the underlying.

"G" factor ("g" growth rate)
It is the factor used for perpetuity projection of cash flows in order to calculate "terminal value".

Global custody
An integrated package of services including, in addition to the custody of securities, the performance of administrative activities relating to the settlement of securities, collections and payments, acting as depositary bank and cash management, as well as various forms of portfolio performance reporting.

Goodwill
The value attached to intangible assets as part of the purchase price of a shareholding in a going concern.

Governance
The set of instruments, rules and standards regulating the life of the company, particularly as regards the transparency of documents and company records, and the completeness of information made available to the market.

Greeks
Greeks are the quantities that identify the greater or lesser sensitivity of a derivative contract, typically an option, to changes in the value of the underlying asset or other parameters (e.g. intrinsic volatility, interest rates, stock prices, dividends and correlations).

Hedge accounting
Rules pertaining to the accounting of hedging transactions.

Hedge fund
Mutual fund that employs hedging instruments in order to achieve a better result in terms of risk/return ratio.

HELs – Home Equity Loans
Loans granted up to the current market value of the real estate property used as collateral (therefore with a loan-to-value ratio higher than the ordinary thresholds), by means of first or second lien mortgages. Standard & Poor's considers Subprime and Home Equity Loan largely synonymous when the home equity loan borrowers have low credit score (FICO<659).

HY CBO – High-Yield Collateralised Bond Obligation
CDOs with collateral represented by High-Yield securities.

IAS/IFRS
The IAS (International Accounting Standards) are issued by the International Accounting Standards Board (IASB). The standards issued after July 2002 are called IFRS (International Financial Reporting Standards).

ICAAP
Under the "Second Pillar" (Title III) banks are required to adopt processes and instruments for implementing the Internal Capital Adequacy Assessment Process, (ICAAP) to determine the amount of capital they need to cover all the risks, including risks different from those covered by the total capital requirement ("First Pillar"), including assessment of their current and potential future exposure, taking into account business strategies and developments in the economic and business environment.

IMA
Internal Models Approach: it can be used to calculate market risks.

Impairment
When referred to a financial asset, a situation of impairment is identified when the book value of an asset exceeds its estimated recoverable amount.

Impairment test
The impairment test is an estimate of the recoverable amount (the higher of an asset's fair value less costs to sell and its value in use) of an asset or group of assets. Pursuant to IAS 36, the following assets should be tested for impairment annually:
- intangible assets with indefinite useful life
- goodwill acquired in a business combination
- any asset, if there is any indication of impairment losses.

Intangible asset
An identifiable, non-monetary asset lacking physical substance.

Internal dealing
Transactions between different operating units of the same company. These transactions are recognised in the accounts and contribute to determining the position (trading or hedging) of the individual units involved.

Intraday
Used to refer to an investment/disinvestment transaction performed in the course of a single day involving the negotiation of a security. It is also used with reference to prices quoted during any one day.

Investment grade
Term used with reference to high-quality bonds that have received a medium/high rating (e.g., not less than BBB on Standard & Poor’s index).

IRS – Interest Rate Swap
A binding agreement between two parties to exchange two flows calculated over a notional amount with fixed/floating or floating/floating rate.

Joint venture
Agreement between two or more firms for the performance of a given economic activity, generally through the incorporation of a joint-stock company.

Junior
In a securitisation transaction it is the lowest-ranking tranche of the securities issued, being the first to bear losses that may occur in the course of the recovery of the underlying assets.

Lead manager - Bookrunner Lead bank of a bond issue syndicate.
The lead manager deals with the debtor and is responsible for choosing the co-lead managers and the other members of the underwriting syndicate in agreement with the debtor. It also determines the terms and conditions of issue and coordinates its execution (usually placing the largest share of the issue on the market) and keeps the books (bookrunner); in addition to reimbursement of expenses and usual fees, the lead manager receives a special commission for its services.

Leveraged & acquisition finance
See “*Acquisition finance*”.

LTV – Loan-to-Value Ratio
The ratio between the loan and the value of the asset for which the loan was requested or the price paid by the borrower to buy the asset.
The LTV ratio measures the weight of the borrower’s own funds used to buy the asset on the value of the asset used as guarantee of the loan. The higher the LTV ratio, the lower the borrower’s own funds used to buy the asset, the lower the creditor’s protection.

LDA - Loss Distribution Approach
Model used for assessing exposure to operational risk that makes it possible to estimate the amount of expected and unexpected loss for any event/loss combination and any business line.

Loss Given Default (LGD)
It indicates the estimated loss rate in the event of borrower default.

Lower Tier 2
It designates subordinated liabilities that meet the eligibility criteria for inclusion in supplementary (Tier 2) capital.

M - Maturity
The remaining time of an exposure, calculated according to the prudence principle. For banks authorised to use internal ratings, it is explicitly considered if the advanced approach is adopted, while it is fixed at 2.5 years if the foundation approach is used.

Mark to Market
Process of determining the value of a portfolio of securities or other financial instruments by reference to the prices expressed by the market.

Market dislocation
Turbulence in financial markets characterised by a strong reduction in volumes traded on financial markets with difficulties in finding significant prices on specialised information providers.

Market making
Financial activity carried out by brokerage houses that ensure market liquidity and depth, both through their ongoing presence and by means of their role as competitive guides in determining prices.

Market neutral
Operating strategies involving securities designed to minimise the relevant portfolios’ exposure to market volatility.

Mark-up
Difference between the overall interest rate applied to households and businesses on loans with a duration of less than one year and 1-month euribor.

Merchant banking
A range of activities including the underwriting of securities – both equities and bonds – issued by corporate clients for subsequent offering on the market, the acquisition of equity investments for longer periods but always with the aim of selling them later, and the provision of advisory services on mergers, acquisitions and reorganisations.

Mezzanine
In a securitisation transaction it is the tranche ranking between junior and senior tranche.

Monoline
Insurance companies which, in exchange for a commission, guarantee the reimbursement of certain bond issues. Formed in the 1970s to guarantee municipal bond issues from default, their services were subsequently particularly appreciated for issues of complex financial products: the structure and the assets underlying such issues are often highly complex; the debt positions guaranteed by monoline insurers become easier to value and more appealing for risk-averse investors, since default risk is borne by the insurer.

Multistrategy / Funds of funds (Funds)
Funds that do not invest in a single strategy but in a portfolio reflecting different strategies, i.e. in a

portfolio of investment funds managed by third parties.

NAV - Net Asset Value
The market value of one share of the fund's managed assets.

Non-performing
Term generally referring to loans for which payments are overdue.

Option
Against payment of a premium, the buyer acquires the right, but not the obligation, to purchase (*call option*) or to sell (*put option*) a financial instrument at a set price (*strike price*) within (*American option*) or on (*European option*) a given future date.

Outsourcing
The transfer of business processes to external providers.

Over-The-Counter (OTC)
It designates transactions carried out directly between the parties outside organised markets.

Packages
Strategy made up of a funded asset whose credit risk is hedged by a specific credit default swap. If present, any interest rate and foreign exchange rate risks can be hedged with financial derivatives.

Past due loans
"Past due loans" are non-performing loans on which payments are past due and/or overdue on a continuing basis for over 90/180 days, in accordance with the definition set forth in current supervisory reporting rules.

Performing
Term generally referring to loans characterised by regular performance.

Plain vanilla (derivatives)
Products whose price depends on that of the underlying instrument, which is listed on the regulated markets.

Pool (transactions)
See "*Syndicated lending*".

Preferred shares
See "*Core Tier 1*".

Pricing
Broadly speaking, it generally refers to the methods used to determine yields and/or costs of products and services offered by the Bank.

Prime loan
Mortgage loan in which both the criteria used to grant the loan (loan-to-value, debt-to-income, etc.) and to assess the borrower's history (no past due reimbursements of loans, no bankruptcy, etc.) are sufficiently conservative to rank the loan as high-quality (as concerns the borrower) and low-risk.

Private banking
Business designed to provide preferred customers with asset management, professional advice and other personalised services.

Private equity
Activity aimed at the acquisition of equity investments and their subsequent sale to specific counterparties, without public offerings.

Probability of Default (PD)
The likelihood that a debtor will default within the space of 1 year.

Project finance
Technique for the financing of industrial projects based upon a forecast of the cash flow generated by the projects themselves. The analysis is based upon a series of evaluations differing from those generally made when assessing ordinary credit risk, and covering, in addition to cash flow analysis, technical examination of the project, the suitability of the sponsors engaged in its implementation and the markets where the product will be placed.

PV01
Measures the price value change of a financial asset following a one basis point shift in the yield curve.

Rating
An evaluation of the quality of a company or of its bond issues, based on the company's financial strength and outlook. Such evaluation is performed by specialised agencies.

Real estate (finance)
Structured finance transactions in the real estate sector.

Real Estate Investment Trust (REITs)
REITs are entities that invest in different types of real estate or financial assets related to real estate, including malls, hotels, offices and mortgage loans.

Relative value/Arbitrage (Funds)
Funds that invest in market neutral strategies, profiting from the price differentials of particular securities or financial contracts, neutralising the underlying market risk.

RMBS - Residential Mortgage-Backed Securities
Asset-backed securities guaranteed by mortgages on residential real estate.

Retail
Customer segment mainly including households, professionals, retailers and artisans.

Risk-based lending
A methodology applied to a credit portfolio to identify the most suitable pricing conditions taking into account the risk factor of each credit.

Risk - Credit risk
The risk that an unexpected change in a counterparty's creditworthiness, in the value of the collateral provided, or in the margins used in case of default might generate an unexpected variation in the value of the bank's exposure.

Risk - Market risk
Risk deriving from the fluctuation in the value of quoted financial instruments (shares, bonds, derivatives, securities denominated in foreign currency) and of financial instruments whose value is linked to market variables (loans to customers as concerns the interest rate component, deposits in euro and in foreign currency, etc.).

Risk - Liquidity risk
The risk that a company will be unable to meet its payment obligations due to its inability to liquidate assets or obtain adequate funding from the market (funding liquidity risk) or due to the difficulty/impossibility of rapidly converting financial assets into cash without negatively and significantly affecting their price due to inadequate market depth or temporary market disruptions (market liquidity risk).

Risk - Operational risk
The risk of incurring losses due to inadequacy or failures of processes, human resources or internal systems, or as a result of external events. Operational risk includes legal risk, that is the risk of losses deriving from breach of laws or regulations, contractual or non-contractual liability or other disputes; it does not include strategic risk (losses due to wrong management strategies) or reputational risk (loss of market shares as a consequence of negative publicity regarding the bank).

Risk Management
Activity pertaining to the identification, measurement, evaluation and overall management of various types of risk and their hedging.

Scoring
System for the analysis of company customers, yielding an indicator obtained by examination of financial statements data and sector performance forecasts, analysed by means of statistical methods.

Senior/Super senior tranche
In a securitisation transaction, this is the tranche that has first claim on interest and principal payments.

Sensitivity
It refers to the degree of sensitivity with which certain assets/liabilities react to changes in rates or other input variables.

Servicer
In securitisation transactions, it is the organisation that – on the basis of a specific servicing contract – continues to manage the securitised credits or assets after they have been transferred to the special purpose vehicle tasked with issuing the securities.

Syndicated lending
Loans arranged and guaranteed by a pool of banks and other financial institutions.

SPE/SPV
Special Purpose Entities or Special Purpose Vehicles are companies established by one or more entities to perform a specific transaction. Generally, SPEs/SPVs have no operating and managerial structures of their own and rely on those of the other parties involved in the transaction.

Speculative grade
Term used to identify issuers with a low credit rating (e.g., below BBB on Standard & Poor's index).

Spread
This term can indicate the difference between two interest rates, the difference between the bid and ask price of a security or the price an issuer of stocks and bonds pays above a benchmark rate.

SpreadVar
Value that indicates the maximum possible loss on a trading portfolio due to the market performance of CDS spreads or bond spreads, with a certain degree of probability and assuming a certain amount of time needed for the disposal of positions.

Stress tests
A simulation procedure designed to assess the impact of extreme market scenarios on a bank's overall exposure to risk.

Structured export finance
Structured finance transactions in the goods and services export sector.

Subprime
A universally agreed-upon definition of sub-prime loans does not exist. In short, this term refers to loans granted to borrowers with low creditworthiness, either because of bad credit history (non-payment, debt settlements or doubtful loans) or because their debt-to-income or loan-to-value ratio is high.

Swaps
Transactions normally consisting of an exchange of financial flows between operators under various contractual arrangements. In the case of an interest rate swap, the parties exchange flows which may or may not be indexed to interest rates, calculated on a notional amount (e.g., one party pays a fixed rate flow while the counterparty pays a floating-rate flow). In the case of a currency swap, the parties exchange specific amounts of two different currencies at the outset, repaying them over time according to arrangements that may regard both the principal and the indexed interest flows.

Tier 1
Core capital (Tier 1) includes the paid-in capital, the share premium reserve, reserves from retained earnings (including IAS/IFRS first-time–adoption reserve other than those included under valuation reserves), and excludes treasury shares and intangible assets. Consolidated Tier 1 capital also includes minority interest.

Tier 2
Supplementary capital (Tier 2) includes valuation reserves, hybrid debt/equity instruments, and subordinated debt, net of bad debts subject to country risk covered with capital and of any other negative elements.

Time value
Change in the financial value of an instrument with regard to the time frame in which certain monetary flows will become available or due.

Total capital ratio
Capital ratio referred to regulatory capital components (Tier 1 plus Tier 2).

Total return swap
A contract under which one party, usually the owner of a security or a debt instrument, agrees to make periodic payments to an investor (protection seller) of the capital gains and interest generated by the asset. On the other side, the investor agrees to make payments based on a floating rate, as well as any negative price changes of the asset from the date of the contract.

Trading book
The portion of a portfolio of securities or other financial instruments earmarked for trading activity.

Trustee (Real estate)
Real estate vehicles.

Trust-preferred Securities (TruPS)
Financial instruments similar to preferred shares, which are entitled to particular tax benefits.

Underwriting fee
Fee received in advance by the bank as compensation for assuming the underwriting risk associated with the granting of a loan.

Upper Tier 2
Hybrid capital instruments (e.g., perpetual loans) that make up the highest quality elements of Tier 2 capital.

Value in use
Value in use is the present value of estimated future cash flows expected to arise from an asset or from a cash-generating unit.

VaR - Value at Risk
The maximum value likely to be lost on a portfolio as a result of market trends, estimating probability and assuming that a certain amount of time is required to liquidate positions.

Vega01
Referred to a portfolio, it indicates the change in value that it would undergo as a consequence of a one percent increase in the volatility of the underlying financial instruments.

Vintage
Date of generation of the collateral underlying the securitisation. It is an important factor in the assessment of the risk of the mortgage portfolios underlying securitisations. Especially in the US, the phenomenon of mortgages granted to borrowers with inadequate income and providing insufficient documentation became significant from 2005.

Warrant
Negotiable instrument that entitles the holder to purchase from or sell to the issuer fixed-income securities or shares according to specific procedures.

Waterfall
Characteristic of a CDO’s cash flow projection that is used in the CDO pricing process to model and allocate flows. It establishes the priority of payment of the various tranches in the event of failure of the tests on overcollateralisation and interest coverage ratios.

What-if
Form of analysis that attempts to predict the response of specific elements to changes in baseline parameters.

Wholesale banking
Banking activity mainly consisting of high-value transactions concluded with major counterparties.

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PRINTED ON FSC ECOLOGICAL PAPER WITH ECO-COMPATIBLE VEGETABLE INKS BY GRAFICHE AGEMA S.P.A. ITALIA – CERTIFIED COMPANY FOR ECO-SUSTAINABLE DEVELOPMENT.

Intesa Sanpaolo is the most widespread bank in Italy. Its leadership stems not only from its size but also thanks to its ability to interpret and respond to the needs of the areas in which it is present.
This commitment can be seen in the choice of maintaining and enhancing all the banks in the group, since it is they that allow Intesa Sanpaolo to present itself to the market as a fully-fledged citizen of every place in which it operates.
This is the reason the illustrations chosen for this report have been inspired by the rich cultural wealth of our cities. They show the major fountains of each regional capital and of the head office cities of the Banche dei Territori. It is a tribute to Italian tradition and history. But it is also emblematic of the willingness to communicate and establish relationships that typifies the people of Intesa Sanpaolo and of the banks in the group.


1. Padova
Fountain, Piazza delle Erbe


2. Roma
Fontana delle Tartarughe, Piazza Mattei


3. Firenze
Courtyard fountain, Palazzo Vecchio


4. Venezia
Fountain, Excelsior Palace Hotel


5. Campobasso
Fountain, Piazza Vittorio Emanuele


6. Torino
Fontana angelica delle Quattro Stagioni, Piazza Solferino


7. Genova
Fontana di Nettuno, Palazzo Doria Pamphilj


8. Forlì
Fountain, Piazza Ordelaffi


9. Napoli
Fountain, Capodimonte Gardens


10. Bologna
Fontana del Nettuno, Piazza Maggiore


11. Milano
Fountain, Piazza Fontana


12. Perugia
Fontana Maggiore, Piazza IV Novembre


13. Palermo
Fontana del Tritone, Archaeological Museum


14. Pesaro
Fountain, Piazza Maggiore


15. Bari
Fountain, Piazza Aldo Moro


16. Cagliari
Fontana della passeggiata, Via Roma


17. L'Aquila
Detail of the Fontana delle 99 Cannelle, Piazza San Vito


18. Aosta
Fountain, Via Croce di Città


19. Trieste
Fontana dei Tritoni, Piazza Vittorio Veneto


20. Catanzaro
Fountain, Piazza Santa Caterina


21. Trento
Fontana di Nettuno, Piazza del Duomo


22. Potenza
Fountain, Montereale Park


23. Ancona
Fontana dei Cavalli, Piazza Roma


24. Gorizia
Fountain, Piazza della Vittoria

Credits
1 Photo by Ioannis Schinezos - Padova
2 Fratelli Alinari History of Photography Museum - Malandrini collection, Firenze
3-4-7-9-14-17-21 Archivi Alinari - Alinari archive, Firenze
5 Photo by Giuseppe Terrigno - Campobasso
6 Archivi Alinari - Anderson archive, Firenze
8 Photo by Giorgio Sabatini - Forlì
10 Archivi Alinari, Firenze
11 Touring Club Italiano/Archivi Alinari, Milano
12 Fratelli Alinari History of Photography Museum - Pasta archive, Firenze
13 Fratelli Alinari History of Photography Museum - Blatt collection, Firenze
15 Photo by Umberto Corcelli - Bari
16 Photo by Elisabetta Messina - Cagliari
18 Photo by Filippo Bosio - Aosta
19 Photo by Franco Debernardi - Trieste
20 Photo by Beppe Mazzocca - Catanzaro
22 Photo by Rocco Esposito - Potenza
23 Archivi Alinari - Brogi archive, Firenze
24 Fratelli Alinari History of Photography Museum, Firenze